

**MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY
Domestic Water Project
Refunding Revenue Bonds
Series 2013G**

\$43,270,000
MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS
SERIES 2013G

TRANSCRIPT INDEX

1. Joint Exercise of Powers Agreement, dated as of July 1, 1989, with evidence of filing with the California Secretary of State, certified by the Secretary of the Authority.
2. Trust Agreement, dated as of August 1, 2013 by and among the Authority, the District and the Trustee.
3. Installment Purchase Contract, dated as of August 1, 2013 by and between the District and the Authority.
4. Amended and Restated Treatment and Delivery Agreement, executed and delivered during 2005 by the District and the City of Modesto, as amended by the Financing Amendments to Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007, by and between the District and the City of Modesto, certified by the Secretary of the District.
5. Continuing Disclosure Agreement between the City and the Trustee.
6. Resolution No. 2013-01 of the Authority adopted on July 9, 2013, certified by the Secretary of the Board of Directors of the Authority.
7. Resolution No. 2013-56 of the District, adopted on July 9, 2013, certified by the Secretary of the Board of Directors of the District.
8. Resolution No. 2013-256 of the City, adopted on July 9, 2013, certified by the City Clerk.
9. Purchase Contract, dated July 31, 2013, executed by the Underwriter and the Authority, together with Letter of Representations, executed by the City, Authority and Underwriter.
10. Preliminary Official Statement, dated July 25, 2013.
11. Certificates of the Authority, District and City as to Finality of Preliminary Official Statement, each dated July 25, 2013.
12. Final Official Statement, dated July 31, 2013.
13. Tax Certificate, with attached Certificates of: (i) the Underwriter, (ii) the Insurer; (iii) the Financial Advisor; and (iv) the City.
14. Written Order and Request of the Authority.
15. Certificate of the Authority.
16. Certificate of the District.

17. Requisition No. 1 of the District regarding the Project Fund.
18. Certificate of the City.
19. Certificate of the Trustee with general signature resolution of the Trustee attached.
20. Municipal Bond Insurance Policy.
21. Municipal Bond Debt Service Reserve Insurance Policy.
22. Certificate of the Insurer.
23. Rating Letters (insured and underlying) from Fitch Ratings and Standard and Poor's Ratings Group.
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25. Preliminary and Final California Debt Investment and Advisory Commission Reports.
26. Internal Revenue Service Form 8038-G.
27. Blue Sky Memorandum, dated July 25, 2013.
28. Copy of audited financial statements of Water System of the City.
29. Receipt of the Trustee.
30. Receipt for the Bonds.
31. Specimen Bonds.
32. Opinions of Counsel to the City.
33. Opinion of Counsel of the District as counsel to the Authority.
34. Opinion of Counsel to the District.
35. Opinion of the Underwriter's Counsel.
36. Opinion of Counsel to the Trustee.
37. Opinion of Counsel to the Insurer.
38. Supplemental Opinion of Bond Counsel.
39. Final Opinion of Bond Counsel.
40. Reliance letters of Bond Counsel addressed to the Insurer and the Trustee.
41. Closing Memoranda.

JOINT EXERCISE OF POWERS AGREEMENT
BY AND BETWEEN
MODESTO IRRIGATION DISTRICT
AND
THE CITY OF REDDING

JOINT EXERCISE OF POWERS AGREEMENT

THIS JOINT EXERCISE OF POWERS AGREEMENT, dated as of July 1, 1989 (herein called the "Agreement"), by and between the MODESTO IRRIGATION DISTRICT, an irrigation district duly organized and existing in the State of California, under and by virtue of the laws of the State of California (herein called the "District") and the CITY OF REDDING, a municipal corporation duly organized and existing in the State of California, under and by virtue of the Constitution and the laws of the State of California (herein called the "City");

W I T N E S S E T H:

WHEREAS, Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California authorizes the City and the District to create a joint exercise of powers entity (herein called the "Modesto Irrigation District Financing Authority" or the "Authority") which has the power to jointly exercise any powers common to the City and the District;

WHEREAS, the City and the District are each empowered by law to contract for public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits, as determined by the City and the District;

WHEREAS, Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Marks-Roos Local Bond Pooling Act of 1985") authorizes and empowers the Authority to enter into contracts to assist the District and the City in financing public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits, as determined by the City or the District;

WHEREAS, the Marks-Roos Local Bond Pooling Act of 1985 further authorizes and empowers the Authority to issue and sell bonds to public or private purchasers at public or negotiated sale for financing public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits, as determined by the City or the District; and

WHEREAS, by this Agreement, the City and the District desire to create and establish the Modesto Irrigation District Financing Authority for the purposes set forth herein and to exercise the powers described herein;

NOW, THEREFORE, the City and the District, for and in consideration of the mutual promises and agreements herein contained, do agree as follows:

SECTION 1. DEFINITIONS

Unless the context otherwise requires, the terms defined in this Section 1 shall for all purposes of this Agreement have the meanings herein specified.

Authority

The term "Authority" shall mean the Modesto Irrigation District Financing Authority created by this Agreement.

Board

The term "Board" shall mean the governing board of the Authority.

City

The term "City" shall mean the existing municipal corporation known as the City of Redding, a city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

District

The term "District" shall mean the Modesto Irrigation District, an irrigation district, duly organized and existing under and by virtue of the laws of the State of California.

Law

The term "Law" shall mean Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (Sections 6500-6599), including the Marks-Roos Local Bond Pooling Act of 1985, as amended.

SECTION 2. PURPOSE

This Agreement is made pursuant to the Law to provide for the joint exercise of powers common to the City and the District. The City and the District are each

empowered by the laws of the State of California to exercise the powers specified in the recitals herein, and these powers shall be jointly exercised for the purpose of financing and contracting for public capital improvements in accordance with the Law, including the refinancing of prior indebtedness and acquiring, selling and financing public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits, as determined by the City or the District, as appropriate, by exercising the powers referred to in the recitals hereof and described in Section 5 herein.

The Authority will fulfill the purposes of this Agreement by entering into contracts with the City or the District and by undertaking the sale and issuance of bonds, from time to time, in accordance with the Law. The City and the District hereby agree that any obligations incurred or any bonds issued by the Authority shall not constitute general obligations of the Authority but shall be payable solely from the moneys pledged to the repayment of such obligations or the repayment of principal of or interest on such bonds under the terms of the resolution, indenture, trust agreement, contract or other instrument pursuant to which the obligation is incurred or the bonds are issued. Pursuant to Section 6508.1 of the Law, the City and the District may separately contract for specific debts, liabilities or obligations of the Authority. In the event either the City or the District

separately contract for specific debts, liabilities or obligations, the member of this Authority not party to such contract shall not be liable or responsible for such debts, liabilities or obligations of the Authority.

SECTION 3. TERM

This Agreement shall become effective as of the date hereof and shall continue in full force and effect until August 1, 2019, unless extended or earlier terminated by a supplemental written agreement of the City and the District; provided, however, that in no event shall this Agreement terminate while any obligation of the Authority remains unpaid or any bonds of the Authority remain outstanding under the terms of the contract or other instrument pursuant to which such obligation is incurred or such bonds are issued. In any event, the Authority shall cause all records regarding its formation, existence, contractual obligations, bonded indebtedness and proceedings pertaining to its termination to be retained for at least six years following termination of the Authority or final payment of any obligation incurred by the Authority or bonds issued by the Authority, whichever is later.

SECTION 4. AUTHORITY

A. Creation of Authority

There is hereby created pursuant to the Law an agency and public entity to be known as the "Modesto Irrigation District Financing Authority." As provided in the

Law, the Authority shall be a public entity separate from the City and the District. The debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of the City or the District.

Within 30 days after the effective date of this Agreement or any amendment hereto, the Authority shall cause a notice of this Agreement or amendment to be prepared and filed with the office of the Secretary of State of the State of California in the manner set forth in Section 6503.5 of the Law.

B. Governing Board

The Authority shall be administered by the Board, which shall consist of the members of the Board of Directors of the District. The term of office of any member of the Board shall be equivalent to such member's term of office on the Board of Directors of the District.

Members of the Board shall not receive any compensation for serving as such, but shall be entitled to reimbursement for any expenses actually incurred in connection with serving as a member if the Board and the District shall determine that such expenses shall be reimbursed and there are unencumbered funds available for such purpose.

C. Meetings of Board

(1) Regular Meetings. The Board shall hold at least one regular meeting each year, and, by resolution, may provide for the holding of regular meetings at more frequent

intervals. The date upon which, and the hour and place at which, each such regular meeting shall be held shall be fixed by resolution of the Board.

(2) Legal Notice. All meetings of the Board shall be called, noticed, held and conducted subject to the provisions of the Ralph M. Brown Act (Chapter 9 of Part 1 of Division 2 of Title 5 (Sections 54950-54961) of the Government Code of the State of California) or any successor legislation hereinafter enacted.

(3) Minutes. The secretary of the Authority shall cause minutes of all meetings of the Board to be kept and shall, as soon as possible after each meeting, cause a copy of the minutes to be forwarded to each member of the Board and to the City and the District.

(4) Quorum. A majority of the members of the Board shall constitute a quorum for the transaction of business, except that less than a quorum may adjourn meetings from time to time.

D. Officers: Duties

(1) The President of the Board of Directors of the District shall serve as chairperson of the Authority and the Vice-President of the Board of Directors of the District shall serve as vice-chairperson of the Authority. The Board shall by resolution appoint a secretary of the Authority.

(2) The Chief Financial Officer of the District is hereby designated as Treasurer of the Authority.

Subject to the applicable provisions of any indenture, trust agreement or resolution providing for a trustee or other fiscal agent, the Treasurer is designated as the depository of the Authority to have custody of all the money of the Authority, from whatever source, and, as such, shall have the powers, duties and responsibilities specified in Section 6505.5 of the Law.

(3) The Treasurer of the District, who performs the functions of auditor and controller for the District, is hereby designated as Controller of the Authority, and, as such, shall have the powers, duties and responsibilities specified in Section 6505.5 of the Law. The Controller shall draw checks to pay demands against the Authority when the demands have been approved by the Authority.

(4) The District shall determine the charges to be made against the Authority for the services of the Treasurer and Controller.

(5) The Treasurer and Controller of the Authority is designated as the public officer or person who has charge of, handles or has access to any property of the Authority, and such officer shall file an official bond in the amount of \$25,000 as required by Section 6505.1 of the Law; provided that such bond shall not be required if the Authority does not possess or own property or funds with an aggregate value of greater than \$500.00.

(6) The Treasurer and Controller of the Authority is hereby authorized and directed to prepare or cause to be prepared:

(a) a special audit as required pursuant to Section 6505 of the Government Code of the State of California every year during the term of this Agreement; and

(b) a report in writing on the first day of January, April, July and October of each year (commencing October 1, 1989) to the Board, the City and the District which report shall describe the amount of money held by the Treasurer and Controller of the Authority for the Board, the amount of receipts since the last such report, and the amount paid out since the first such report.

(7) The Board shall have the power to appoint such other officers and employees as it may deem necessary and to retain independent counsel, consultants and accountants.

SECTION 5. POWERS

The Authority shall have the power to enter into contracts and to issue bonds to assist the City and the District in financing public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits, as determined by the District or the City, as appropriate, all in accordance with the Law.

The Authority is authorized, in its own name, to do all acts necessary or convenient for the exercise of said

powers for said purposes, including but not limited to any or all of the following: to make and enter into contracts; to employ agents and employees; to acquire, hold or dispose of property; to incur debts, liabilities or obligations (which do not constitute debts, liabilities or obligations of the City or the District or each of them); and to sue and be sued in its own name. The Authority shall also have the power to issue any other forms of indebtedness authorized by Law in accordance with provisions of the Law for such purposes.

Such power shall be exercised subject only to such restrictions upon the manner of exercising such power as are imposed upon the City in the exercise of similar powers, as provided in Section 6509 of the Law, except, however, nothing herein shall limit the powers of the Authority under the Marks-Roos Local Bond Pooling Act of 1985.

Notwithstanding the foregoing, the Authority shall have any additional powers conferred under the Law, insofar as such additional powers may be necessary to accomplish the purposes set forth in Section 2 hereof.

SECTION 6. TERMINATION OF POWERS

The Authority shall continue to exercise the powers herein conferred upon it until the termination of this Agreement as provided in Section 3 or until the City and the District shall have mutually rescinded this Agreement; provided, however, that in no event shall this Agreement be terminated or rescinded while any obligation of the Authority

remains unpaid or any bonds of the Authority remain outstanding under the terms of the contract or other instrument pursuant to which the obligation is incurred or the bonds are issued.

SECTION 7. FISCAL YEAR

Unless and until changed by resolution of the Board, the fiscal year of the Authority shall be the period from July 1 of each year to and including the following June 30, except for the first fiscal year which shall be the period from the date of this Agreement to the following June 30.

SECTION 8. DISPOSITION OF ASSETS

At the end of the term hereof or upon the earlier termination of this Agreement as set forth in Section 6 hereof, all assets of the Authority shall be distributed to the respective grantors or assignors thereof and any surplus money on hand shall be returned to the City or the District in proportion to their respective contributions to the Authority pursuant to Section 9 hereof.

SECTION 9. CONTRIBUTIONS AND ADVANCES

Contributions or advances of public funds and of personnel, equipment or property may be made to the Authority by the City and the District for any of the purposes of this Agreement. Payment of public funds may be made to defray the cost of any such contribution. Any such advance shall be made subject to repayment, and shall be repaid, in the manner agreed upon by the City or the District, as the case may be,

and the Authority at the time of making such advance. It is mutually understood and agreed that neither the City nor the District has any obligation to make advances or contributions to the Authority to provide for the costs and expenses of administration of the Authority, even though either may do so. The City or the District may allow the use of personnel, equipment or property in lieu of other contributions or advances to the Authority. After termination of this Agreement pursuant to Section 3, any surplus money in possession of the Authority shall be returned to the City and the District in proportion to the unreimbursed contributions each has made.

SECTION 10. AGREEMENT NOT EXCLUSIVE

This Agreement shall not be exclusive and shall not be deemed to amend or alter the terms of other agreements between the City and the District, except as the terms of this Agreement may conflict therewith, in which case the terms of this Agreement shall prevail.

SECTION 11. ACCOUNTS AND REPORTS

The Authority shall establish and maintain such funds and accounts as may be required by good accounting practice. The books and records of the Authority shall be open to inspection at all reasonable times by the City and the District and their representatives. The Authority shall give an audited written report of all financial activities for each

fiscal year to the City and to the District within 150 days after the close of each fiscal year.

So long as required by Section 6505.6 of the Government Code of the State of California, the Controller of the Authority shall either make, or contract with a certified public accountant or public accountants to make, an annual audit of the accounts and records of the Authority. In each case the minimum requirements of the audit shall be those prescribed by the State Controller for special districts under Section 26909 of the Government Code of the State of California and shall conform to generally accepted auditing standards. When such an audit of the accounts and records is made by a certified public accountant or public accountants, a report thereof shall be filed as public records with the City, the District and, if required by Section 6505.6 of the Government Code of the State of California, with the County Auditor/Controller of the County of Shasta and the County Auditor/Controller of the County of Stanislaus. Such report shall be filed within 12 months of the end of the fiscal year or years under examination.

Any costs of the audit, including contracts with, or employment of, a certified public accountant or public accountants, in connection with making an audit pursuant to this section shall be borne by the Authority and shall be a charge against any unencumbered funds of the Authority available for the purpose and, in the event there are no such

funds, shall be a charge against the City and the District in proportion to the amount designated as principal of any obligation incurred and principal amount of any bonded indebtedness incurred by the Authority, as appropriate, on behalf of the City and the District.

In any year the Authority may, by unanimous request of the Board, replace the annual special audit with an audit covering a two-year period.

SECTION 12. CONFLICT OF INTEREST CODE

The Authority by resolution shall adopt a Conflict of Interest Code as required by law.

SECTION 13. BREACH

If default shall be made by the City or the District in any covenant contained in this Agreement, such default shall not excuse either the City or the District from fulfilling its obligations under this Agreement and the City and the District shall continue to be liable for the performance of all conditions herein contained. The City and the District hereby declare that this Agreement is entered into for the benefit of the Authority created hereby and the City and the District hereby grant to the Authority the right to enforce by whatever lawful means the Authority deems appropriate all of the obligations of each of the parties hereunder. Each and all of the remedies given to the Authority hereunder or by any law now or hereafter enacted are

cumulative and the exercise of one right or remedy shall not impair the right of the Authority to any or all other remedies.

SECTION 14. SEVERABILITY

Should any part, term, or provision of this Agreement be decided by the courts to be illegal or in conflict with any law of the State of California, or otherwise be rendered unenforceable or ineffectual, the validity of the remaining parts, terms or provisions hereof shall not be affected thereby.

SECTION 15. SUCCESSORS; ASSIGNMENT

This Agreement shall be binding upon and shall inure to the benefit of the successors of the parties. Except to the extent expressly provided herein, neither party may assign any right or obligation hereunder without the consent of the other.

SECTION 16. AMENDMENT OF AGREEMENT

This Agreement may be amended by supplemental agreement executed by the City and the District at any time to provide for the financing of public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits, as determined by the City and the District in accordance with the Law or for any other purpose; provided, however, that in no event shall this Agreement terminate while any obligation incurred by the Authority or any bonds of the Authority remain outstanding under the terms of a contract or other instrument

pursuant to which such obligation is incurred or such bonds are issued.

SECTION 17. FORM OF APPROVALS

Whenever an approval is required in this Agreement, unless the context specifies otherwise, it shall be given, in the case of the District, by resolution duly and regularly adopted by the members of the Board of Directors of the District, and, in the case of the City, by resolution duly and regularly adopted by the City Council of the City, and, in the case of the Authority, by resolution duly and regularly adopted by the Board. Whenever in this Agreement any consent or approval is required, the same shall not be unreasonably withheld.

SECTION 18. SECTION HEADINGS

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and attested by their proper officers thereunto duly authorized, and their official seals to be hereto affixed, as of the day and year first above written.

CITY OF REDDING

By Scott Carter
SCOTT CARTER, MAYOR

[SEAL]

Attest:

Ethel A. Nichols
City Clerk

FORM APPROVED

Randall A. Keys
CITY LEGAL DEPT.

MODESTO IRRIGATION DISTRICT

By _____
President

[SEAL]

ATTEST:

Secretary

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and attested by their proper officers thereunto duly authorized, and their official seals to be hereto affixed, as of the day and year first above written.

CITY OF REDDING

By _____
Mayor

[SEAL]

Attest:

City Clerk

MODESTO IRRIGATION DISTRICT

By Charles R. Kelly
President

[SEAL]

ATTEST:

Wilbur E. ...
Secretary

CERTIFICATE OF THE SECRETARY OF THE
BOARD OF DIRECTORS OF THE MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

I, VICKIE EHRLER, Secretary of the Board of Directors of the Modesto Irrigation District Financing Authority, hereby certify that the foregoing is a full, true and correct copy of the Joint Exercise of Powers Agreement by and between the City of Redding and the Modesto Irrigation District, dated as of July 1, 1989.

I further certify that I have carefully compared the foregoing copy with the original on file and of record in my office; that said copy is a true, complete and correct copy of the original Joint Exercise of Powers Agreement; and that said Joint Exercise of Powers Agreement has not been modified, amended, rescinded or revoked in any manner since the date of its execution, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this 19th day of July, 1989.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By 
Secretary of the Board of Directors



March Fong Eu
Secretary of State

Limited Partnership Division
923 - 12th Street, 3rd Floor
Sacramento, CA 95814

General Information (916) 324-6781
Limited Partnership Unit (916) 324-6769
Statutory Certification
Bonds and Filings Unit (916) 324-6776
Trademark Unit (916) 445-9872

July 12, 1989

Mr. Mike Gamble
Valley Legal Services
P. O. Box 27
Rocklin, CA 95677

The purpose of this letter is to acknowledge the filing in this office of a Notice of a Joint Powers Agreement for Modesto Irrigation District Financing Authority pursuant to California Government Code Section 6503.5 or 6503.7. This notice was filed as of 7-12-89.

Sincerely,

MARIAN ASH, Chief
Limited Partnership Division

Linda Beauchamp
LINDA BEAUCHAMP, Supervisor
Statutory Certification,
Bonds and Filings Unit



State of California
 March Fong Eu
 Secretary of State

NOTICE OF A JOINT POWERS AGREEMENT
 (Government Code Section 6503.5 or 6503.7)

Instructions:

1. Complete and mail to: Secretary of State,
 P.O. Box 704, Sacramento, CA 95812-0704 (916) 324-6778
2. Include filing fee of \$5.00.
3. Do not include attachments, unless otherwise specified.

The name of the agency or entity created under the agreement and responsible for the administration of the agreement is _____

the Modesto Irrigation District Financing Authority

Mailing address: 1231 Eleventh Street, P.O. Box 4060, Modesto, California 95352

Provide a short title of the agreement if applicable: Joint Exercise of Powers Agreement
by and between Modesto Irrigation District and the City of Redding

The public agencies party to the agreement are:

(1) Modesto Irrigation District

(2) the City of Redding

(3) _____
 if more space is needed, continue on a separate sheet and attach it to this form.

The effective date of the agreement is: July 1, 1989

Provide a condensed statement of the agreement's purpose or the powers to be exercised: _____
To provide for the joint exercise of powers for the purpose of financing
public capital improvements, working capital, liability and other insurance
needs, or projects whenever there are significant public benefits in
accordance with Article 1 of Chapter 5 of Division 7 of Title 1 of the
Government Code of the State of California.

Patricia M. Lynch
 Signature

Patricia M. Lynch, Bond Counsel
 Typed Name and Title
Orrick, Herrington & Sutcliffe
(415) 773-5486

FILE 974

FILED
 In the office of the Secretary of State
 of the State of California
 JUL 12 1989
March Fong Eu
 MARCH FONG EU, Secretary of State

(Office Use Only)



March Fong Eu
Secretary of State

Limited Partnership Division
923 - 12th Street, 3rd Floor
Sacramento, CA 95814

General Information (916) 324-6781
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Statutory Certification
Bonds and Filings Unit (916) 324-6778
Trademark Unit (916) 445-9872

July 12, 1989

Mr. Mike Gamble
Valley Legal Services
P. O. Box 27
Rocklin, CA 95677

The purpose of this letter is to acknowledge the filing in this office of a Statement of Facts for Modesto Irrigation District Financing Authority pursuant to California Government Code Section 53051. This statement was filed as of 7-12-89.

Sincerely,

MARIAN ASH, Chief
Limited Partnership Division

Linda Beauchamp
LINDA BEAUCHAMP, Supervisor
Statutory Certification,
Bonds and Filings Unit



State of California
March Fong Eu
Secretary of State

FILE _____
FILED
In the office of the Secretary of State
of the State of California
JUL 12 1989
March Fong Eu
MARCH FONG EU, Secretary of State
(Office Use Only)

STATEMENT OF FACTS
ROSTER OF PUBLIC AGENCIES FILING
(Government Code Section 53051)

Instructions:

- 1. Complete and mail to: Secretary of State,
P.O. Box 704, Sacramento, CA 95812-0704 (916) 324-6778
- 2. A street address must be given as the official mailing address
or as the address of the presiding officer.
- 3. Complete addresses are required.

New Filing [] Amendment []

Nature of Amendment: _____

Legal name of Public Agency: Modesto Irrigation District Financing Authority

County: Stanislaus

Official Mailing Address: 1231 Eleventh Street, P.O. Box 4060, Modesto, CA 95352

Name and Address of each member of the governing board:

Chairman, President or other Presiding Officer:

Name: Charles J. Billington, III Address: 1231 Eleventh St., P.O. Box 4060
Modesto, CA 95352

Secretary or Clerk:

Name: Vickie Ehrler Address: 1231 Eleventh St., P.O. Box 4060
Modesto, CA 95352

Members:

Name: Robert A. Beck, D.V.M. Address: 1231 Eleventh St., P.O. Box 4060, Modesto, CA

Name: John E. Kidd Address: 1231 Eleventh St., P.O. Box 4060, Modesto, CA

Name: Jeffrey P. Cowan Address: 1231 Eleventh St., P.O. Box 4060, Modesto, CA

Name: William J. Lyons, Jr. Address: 1231 Eleventh St., P.O. Box 4060, Modesto, CA

Name: _____ Address: _____

Date: July 11, 1989 By: *Patricia M Lynch*
Signature

Patricia M. Lynch, Bond Counsel
Typed Name and Title
Orrick, Herrington & Sutcliffe (415) 773-5486

**CERTIFICATE OF THE SECRETARY OF THE
BOARD OF DIRECTORS OF THE MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY**

I, PAT MILLS, Secretary of the Board of Directors of the Modesto Irrigation District Financing Authority, hereby certify that the foregoing is a full, true and correct copy of the Joint Exercise of Powers Agreement by and between the City of Redding and the Modesto Irrigation District, dated as of July 1, 1989.

I further certify that I have carefully compared the foregoing copy with the original on file and of record in my office; that said copy is a true, complete and correct copy of the original Joint Exercise of Powers Agreement; and that said Joint Exercise of Powers Agreement has not been modified, amended, rescinded or revoked in any manner since the date of its execution, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this 14th day of August, 2013.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By Pat Mills
Secretary of the Board of Directors

TRUST AGREEMENT

Among

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY

And

MODESTO IRRIGATION DISTRICT

And

WELLS FARGO BANK, NATIONAL ASSOCIATION,

as Trustee

Dated as of August 1, 2013

RELATING TO
MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REVENUE BONDS

INCLUDING
\$43,270,000 SERIES 2013G REFUNDING WATER BONDS

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TRUST AGREEMENT

This TRUST AGREEMENT, made and entered into as of August 1, 2013, by and among MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California (the "Authority"), and MODESTO IRRIGATION DISTRICT, an irrigation district duly organized and existing under and by virtue of the laws of the State of California (the "District"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association duly organized and existing under and by virtue of the laws of the United States of America (the "Trustee")

W I T N E S S E T H:

WHEREAS, the Authority is a joint exercise of powers authority organized and existing pursuant to a Joint Exercise of Powers Agreement, dated as of July 1, 1989 (the "Agreement"), by and between Modesto Irrigation District (the "District") and the City of Redding and pursuant to the Joint Exercise of Powers Act (Sections 6500 et seq. of the California Government Code) (the "Act");

WHEREAS, the District is authorized by law, including Division 11 of the California Water Code, as amended, to acquire interests in and construct facilities for the treatment and delivery of water;

WHEREAS, the Authority is authorized by the Agreement and the Act to assist the District in acquiring and financing the acquisition, design, construction and installation of the domestic water treatment and delivery system of the District (the "Domestic Water System") through the issuance of its revenue bonds;

WHEREAS, the Authority and the District entered into an Installment Purchase Contract, dated as of November 1, 1992 and amended and restated as of July 1, 1995 and further amended and restated as of February 1, 1998 whereby the Authority agreed to assist the District by financing and refinancing certain initial facilities, including diversion facilities, water treatment facilities, pipelines, pumps, storage facilities and other improvements, described in Exhibit B hereto (the "Project"), comprising the original project component of the Domestic Water System in the manner described therein;

WHEREAS, the Authority assisted the District by refinancing the acquisition, design, construction, improvement and installation of the Project for the District through the issuance of its Domestic Water Project Revenue Bonds, Series 1992A in an original aggregate principal amount of \$67,320,000 (the "Series 1992A Water Bonds") and Series 1995C, in an original aggregate principal amount of \$23,380,000 (the "Series 1995C Water Bonds");

WHEREAS, the Authority authorized and issued its Domestic Water Project Revenue Bonds, including Series 1998D Refunding Water Bonds in an original aggregate principal amount of \$94,715,000 (the "Prior Water Bonds") to assist in refinancing the Project through the refunding of the Series 1992A Water Bonds and the Series 1995C Water Bonds;

WHEREAS, the District has determined that it is in the best interests of the District and its consumers, including but not limited to the beneficial use of the District's water resources in a manner which promotes the assurance of water and electric service to the District's residents and customers, and is otherwise necessary and proper for the public purposes of the District that the District refinance the acquisition of such interests in the Project by further amending and restating such Installment Purchase Contract, as of August 1, 2013 (the "Installment Purchase Contract");

WHEREAS, the District is obligated to make installment payments to the Authority under the Installment Purchase Contract;

WHEREAS, all rights to receive installment payments under the Installment Purchase Contract have been assigned without recourse by the Authority to the Trustee pursuant to this Trust Agreement;

WHEREAS, in order to refund and defease the Prior Water Bonds in accordance with their terms, and to provide for the authentication and delivery of the Authority's Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Series 2013G Water Bonds"), to establish and declare the terms and conditions upon which the Series 2013G Water Bonds are to be issued and secured and to secure the payment of the principal thereof and interest thereon, the Authority has authorized the execution and delivery of this Trust Agreement;

WHEREAS, the Authority hereby certifies that all acts and proceedings required by law necessary to make the Series 2013G Water Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the Authority payable in accordance with their terms, and to constitute this Trust Agreement a valid and binding agreement of the parties hereto for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Trust Agreement have been in all respects duly authorized;

NOW, THEREFORE, THIS TRUST AGREEMENT WITNESSETH, in order to secure the payment of the principal of and the interest on all Series 2013G Water Bonds at any time issued and outstanding under this Trust Agreement, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Series 2013G Water Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Series 2013G Water Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Authority and the District do hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the Series 2013G Water Bonds, as follows:

ARTICLE I

DEFINITIONS; EQUAL SECURITY

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any certificate, opinion, request or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein.

Act

The term "Act" means the Joint Exercise of Powers Act, constituting Chapter 5 of Title 1 of Division 7 of the California Government Code (Sections 6500 et seq.) as amended and supplemented to the date hereof.

Authority

The term "Authority" means the Modesto Irrigation District Financing Authority, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California.

Authorized Authority Representative

The term "Authorized Authority Representative" means the Chairperson, Executive Secretary, Vice Chairperson, Treasurer or Controller of the Authority or any other person who at the time and from time to time may be designated, by written certificate furnished to the District and the Trustee, as the person authorized to act on behalf of the Authority. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the Authority by its Chairperson or its Treasurer and shall designate an alternate or alternates.

Authorized City Representative

The term "Authorized City Representative" means the Mayor, the City Manager or Finance Director of the City or any other person who at the time and from time to time may be designated, by written certificate furnished to the District and the Trustee, as the person authorized to act on behalf of the City. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the City by its Mayor, its City Manager or its Finance Director and shall designate an alternate or alternates.

Authorized Denomination

The term "Authorized Denomination" means \$5,000 or any integral multiple thereof.

Authorized District Representative

The term "Authorized District Representative" means the President of the Board of Directors of the District, the Interim General Manager, the Interim Treasurer, the Interim Assistant General Manager, Finance or the Controller of the District or any other person who at the time and from time to time, may be designated, by written certificate furnished to the Authority and the Trustee, as the person authorized to act on behalf of the District. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the District by the President of its Board of Directors, its General Manager, its Interim General Manager, its Assistant General Manager, Finance, or its Interim Assistant General Manager, Finance, and shall designate an alternate or alternates.

Bond Counsel

The term "Bond Counsel" means any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States.

Bond Insurer

The term "Bond Insurer" means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

Business Day

The term "Business Day" means a day on which banks located in the cities in which the Principal Office of the Trustee are located are not required or authorized to remain closed and on which the Federal Reserve System is not closed.

Certificate of the Authority

The term "Certificate of the Authority" means an instrument in writing signed by an Authorized Authority Representative. If and to the extent required by the provisions of Section 1.04, each Certificate of the Authority shall include the statements provided for in Section 1.04.

Certificate of the District

The term "Certificate of the District" means an instrument in writing signed by an Authorized District Representative. If and to the extent required by the provisions of Section 1.04, each Certificate of the Authority shall include the statements provided for in Section 1.04.

Certified Resolution

The term "Certified Resolution" means a copy of a resolution of the Authority certified by the Executive Secretary or Deputy Executive Secretary of the Authority to have been duly adopted by the Authority and to be in full force and effect on the date of such certification.

City

The term "City" means the City of Modesto.

Code

The term "Code" means the Internal Revenue Code of 1986.

Continuing Disclosure Agreement

The term "Continuing Disclosure Agreement" shall mean that certain Continuing Disclosure Agreement between the City and the Trustee dated the date of issuance and delivery of the Series 2013G Water Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Depository

The term "Depository" means Wells Fargo Bank, National Association, as trustee, and its successors and assigns in its capacity as Depository under the Installment Purchase Contract.

District

The term "District" means Modesto Irrigation District, an irrigation district duly organized and existing under and by virtue of the laws of the State of California.

Domestic Water System

The term "Domestic Water System" shall have the meaning ascribed to such term in the Installment Purchase Contract.

Event of Default

The term "Event of Default" as used herein shall have the meaning specified in Section 7.01 hereof.

Federal Securities

The term "Federal Securities" means any of the following:

1. Cash
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series "SLGs")
3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities

4. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book entry form are acceptable.

5. Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

6. Obligation issued by the following agencies which are backed by the full faith and credit of the U.S.

a. U.S. Export-Import Bank (Eximbank)

Direct obligations or fully guaranteed certificates of beneficial ownership

b. Farmers Home Administration (FmHA)

Certificates of beneficial ownership

c. Federal Financing Bank

d. General Services Administration

Participation certificates

e. U.S. Maritime Administration

Guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

New Communities Debentures – U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds.

Fitch

The term “Fitch” means Fitch Ratings, its successors and their assigns, or if Fitch is no longer performing the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the District.

Installment Payments

The term "Installment Payments" means the installment payments of interest and principal and the prepayment premium, if any, payable by the District under and pursuant to the Installment Purchase Contract.

Installment Purchase Contract

The term "Installment Purchase Contract" means the Installment Purchase Contract by and between the District and the Authority dated as of November 1, 1992, as amended and restated as of July 1, 1995 and as further amended and restated as of February 1, 1998 and as further amended and restated as of August 1, 2013, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Insured Series 2013G Water Bonds

The term "Insured Series 2013G Water Bonds," means Series 2013G Water Bonds maturing on September 1, 2019 through and including September 1, 2022.

Interest Payment Date

The term "Interest Payment Date," means March 1, 2014, and each March 1 and September 1 thereafter.

Moody's

The term "Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

Municipal Bond Insurance Policy

The term "Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of the principal of and interest on the Insured Series 2013G Water Bonds when due.

Notice by Mail; Notice

The term "Notice by Mail" or "notice" of any action or condition "by Mail" means a written notice meeting the requirements of this Trust Agreement mailed by first-class mail to the Owners of specified registered Series 2013G Water Bonds, at the addresses shown on the registration books maintained pursuant to Section 2.04 hereof.

Outstanding

The term "Outstanding," when used as of any particular time with reference to the Series 2013G Water Bonds, means (subject to the provisions of Section 10.02) all Series 2013G Water Bonds except --

(1) Series 2013G Water Bonds canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Series 2013G Water Bonds paid or deemed to have been paid within the meaning of Section 10.01; and

(3) Series 2013G Water Bonds in lieu of or in substitution for which other Series 2013G Water Bonds shall have been executed and delivered by the Trustee pursuant to Section 2.06.

Owner

The term "Owner" means the registered owner of any Outstanding Series 2013G Water Bond.

Participating Underwriter

The term "Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

Permitted Investments

The term "Permitted Investments" means any of the following which at the time are legal investments under the laws of the State of California for moneys held hereunder and then proposed to be invested therein:

A. Direct obligations of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

1. United States Export-Import Bank

Direct obligations or fully guaranteed certificates of beneficial ownership

2. Farmers Home Administration

Certificates of beneficial ownership

3. Federal Financing Bank
4. Federal Housing Administration Debentures (“FHA”)
5. General Services Administration
Participation certificates
6. Government National Mortgage Association (“GNMA” or “Ginnie Mae”)
GNMA – guaranteed mortgage-backed bonds
GNMA – guaranteed pass-through obligations
7. United States Maritime Administration
Guaranteed Title XI financing
8. United States Department of Housing and Urban Development (“HUD”)
Project Notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”)
Participation Certificates
Senior debt obligations
3. Federal National Mortgage Association (“FNMA” or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (“SLMA” or “Sallie Mae”)

Senior debt obligations

5. Resolution Funding Corporation (“REFCORP”) obligations
6. Farm Credit System

Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m,” or “AA m” and if rated by Moody’s, rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks (including affiliates of the Trustee), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including Guaranteed Investment Contracts, Forward Purchase Agreements and Reserve Fund Put Agreements.

H. Commercial paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1+” by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime – 1” or “A3” or better by Moody’s and “A-1+” or “A” or better by S&P.

K. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

- a. Repos must be between the municipal entity and a dealer bank or securities firm

(1) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Ratings Group and Moody's, or

(2) Banks rated "A" or above by Standard & Poor's Ratings Group and Moody's Investor Services.

b. The written repo contract must include the following:

(1) Securities which are acceptable for transfer are:

(a) Direct U.S. governments

(b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

(2) The term of the repo may be up to 30 days

(3) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) The trustee has a perfected first priority security interest in the collateral.

(5) Valuation of Collateral

(a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(b) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. Legal opinion which must be delivered to the municipal entity:

Repo meets guidelines under state law for legal investment of public funds.

L. Any state administered pool investment fund in which the Authority is statutorily permitted or required to invest, including, but not limited to participation in the Local Agency Investment Fund (LAIF).

Principal Office

The term "Principal Office" of the District means the office designated by the District in writing to the Authority and the Trustee in Modesto, California.

The term "Principal Office" of the Trustee means the corporate trust offices of the Trustee initially located in Los Angeles or San Francisco, California (except that with respect to the registration, transfer, exchange, surrender or payment of the Series 2013G Water Bonds, it shall mean the office of the Trustee in Minneapolis, Minnesota).

Prior Water Bonds

The term "Prior Water Bonds" means the Authority's unpaid Domestic Water Project Refunding Revenue Bonds, Series 1998D.

Project

The term "Project" means the acquisition, design, construction and installation of the initial facilities, described in Exhibit B hereto, comprising a portion of the domestic water treatment and delivery system of the District.

Project Fund

The term "Project Fund" means the Modesto Irrigation District Domestic Water Project Fund, Series 2013G established pursuant to Section 3.03 hereof.

Qualified Newspaper

The term "Qualified Newspaper" shall include The Wall Street Journal and The Bond Buyer and any other newspaper or journal containing financial news, printed in the English language and customarily published on each business day, of general circulation in New York, New York.

Rebate Fund

The term "Rebate Fund" means the Rebate Fund established pursuant to the Installment Purchase Contract.

Rebate Instructions

The term "Rebate Instructions" shall have the meaning ascribed to such term in the Installment Purchase Contract.

Rebate Requirement

The term "Rebate Requirement" means the Rebate Requirement defined in the Tax Certificate.

Record Date

The term "Record Date" means the close of business on the fifteenth day of the calendar month immediately preceding the Interest Payment Date.

Repository

The term "Repository" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission or any successor agency thereto to receive reports and notices pursuant to Rule 15c2-12.

Reserve Policy

The term "Reserve Policy" means the municipal bond debt service reserve insurance policy issued by the Bond Insurer guaranteeing certain payments into the Series 2013G Reserve Fund as provided therein and subject to the limitations set forth therein.

Revenues

The term "Revenues" means all Installment Payments and other payments made by the District and received by the Authority pursuant to the Installment Purchase Contract and all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) pursuant to Section 5.03.

S&P

The term "S&P" means Standard & Poor's Rating Group, its successors and their assigns, or if S&P is no longer performing the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

Securities Depositories

The term "Securities Depositories" means: The Depository Trust Company, or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories, or no such depositories, as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

Series 2013G Reserve Fund

The term "Series 2013G Reserve Fund" means the Series 2013G Reserve Fund established pursuant to the Installment Purchase Contract.

Series 2013G Revenue Fund

The term "Series 2013G Revenue Fund" means the Series 2013G Revenue Fund established pursuant to Section 5.02.

Series 2013G Water Bonds

The term "Series 2013G Water Bonds" means the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G executed and delivered under and pursuant to Article II in the aggregate principal amount of \$43,270,000.

Tax Certificate

The term "Tax Certificate" shall have the meaning ascribed to such term in the Installment Purchase Contract.

Treatment and Delivery Agreement

The term "Treatment and Delivery Agreement" shall have the meaning ascribed to such term in the Installment Purchase Contract.

Trust Agreement

The term "Trust Agreement" means this Trust Agreement by and among the Trustee, the District and the Authority, dated as of August 1, 2013, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Trustee

The term "Trustee" means Wells Fargo Bank, National Association, a national association duly organized and existing under and by virtue of the laws of the United States of America, acting in its capacity as trustee hereunder, and its successors and assigns, or any other bank, national association or trust company which may at any time be substituted in its place.

Written Consent of the Authority; Written Consent of the District

The terms "Written Consent of the Authority," "Written Order of the Authority," "Written Request of the Authority" and "Written Requisition of the Authority" mean, respectively, a written consent, order, request or requisition signed by or on behalf of the Authority by an Authorized Authority Representative.

The terms "Written Consent of the District," "Written Order of the District," "Written Request of the District," and "Written Requisition of the District" mean, respectively, a written consent, order, request or requisition signed by or on behalf of the District by an Authorized District Representative.

SECTION 1.02. Number and Gender. The singular form of any word used herein, including the terms defined in Section 1.01, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.03. Articles, Sections, Etc. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Trust Agreement as originally executed; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Trust Agreement as a whole and not to any particular Article, Section or subdivision hereof. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Trust Agreement.

SECTION 1.04. Content of Certificates and Opinions. Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Trust Agreement shall include (a) a statement that the person or persons making or giving such certificate or opinion have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate or opinion made or given by an officer of the Authority or the District, as applicable, may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion made or given by counsel may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority or the District, as applicable), upon the certificate or opinion of or representations by an officer of the Authority or the District, as applicable, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

SECTION 1.05. Equal Security. In consideration of the acceptance of the Series 2013G Water Bonds by the Owners thereof, the Trust Agreement shall be deemed to be and shall constitute a contract between the Authority and the Trustee for the benefit of the Owners from time to time of all Series 2013G Water Bonds authorized, executed, issued and delivered hereunder and then Outstanding to secure the full and final payment of the principal of, interest on and redemption premiums, if any, on all Series 2013G Water Bonds which may from time to time be authorized, executed, issued and delivered hereunder, subject to the agreements, conditions, covenants and provisions contained herein; and all agreements and covenants set forth herein to be performed by or on behalf of the Authority shall be for the equal and proportionate benefit, protection and security of all Owners of the Series 2013G Water Bonds without distinction, preference or priority as to security or otherwise of any Series 2013G Water Bonds over any other Series 2013G Water Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof or for any cause whatsoever, except as expressly provided herein or therein.

ARTICLE II

THE SERIES 2013G WATER BONDS

SECTION 2.01. Authorization and Purpose of Series 2013G Water Bonds; Terms of Series 2013G Water Bonds. (a) Authorization and Purpose. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Series 2013G Water Bonds and has found, as a result of such review, and hereby finds and determines that all acts,

conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of the Series 2013G Water Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and that the Authority is now duly authorized, pursuant to each and every requirement of the Act, to issue the Series 2013G Water Bonds in the form and manner provided herein for the purpose of providing funds to pay for and construct the Project, and that the Series 2013G Water Bonds shall be entitled to the benefit, protection and security provisions hereof. The Series 2013G Water Bonds shall be prepared only in the form of fully registered Series 2013G Water Bonds, without coupons, in Authorized Denominations. The Series 2013G Water Bonds shall be in substantially the form set forth in Exhibit A hereto and shall be initially registered in the name of "Cede & Co.," as nominee of The Depository Trust Company.

Pursuant to recommendations promulgated by the Committee on Uniform Security Identification Procedures, "CUSIP" numbers may be printed on the Series 2013G Water Bonds. Each respective Series 2013G Water Bond may bear such endorsement or legend relating thereto as may be satisfactory to the Trustee and as may be required to conform to usage or law with respect thereto.

(b) Terms of Series 2013G Water Bonds. The Series 2013G Water Bonds shall be designated "Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G," and shall be issued in an aggregate principal amount of forty-three million two hundred seventy thousand dollars (\$43,270,000) under and subject to the terms of this Trust Agreement and the Act. The Series 2013G Water Bonds shall be payable in lawful money of the United States of America and shall be executed and delivered only in Authorized Denominations.

The Series 2013G Water Bonds shall be dated as of their date of issuance. The Series 2013G Water Bonds shall bear interest from the Interest Payment Date next preceding the date of registration thereof unless they are registered as of an Interest Payment Date, in which event they shall bear interest from the date of registration thereof, or unless they are registered on or before February 15, 2014, in which event they shall bear interest from their date of issuance; provided, however, that if at the time of registration of any Series 2013G Water Bond interest on the Outstanding Series 2013G Water Bonds shall be in default, Series 2013G Water Bonds issued in exchange for Series 2013G Water Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Series 2013G Water Bonds, or, if no interest has been paid or duly provided for with respect to the Series 2013G Water Bonds, from their date of issuance. Interest on the Series 2013G Water Bonds shall be payable on each Interest Payment Date and shall be calculated on the basis of a 360-day year and twelve 30-day months.

Payment of the interest on any Series 2013G Water Bond shall be made to the person appearing on the bond registration books of the Trustee as the Owner thereof on the Record Date, such interest to be paid by the Trustee to such Owner by clearinghouse check mailed on the Interest Payment Date, to such Owner's address as it appears on the registration books of the Trustee or at such other address as has been furnished to the Trustee in writing by such Owner except that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Owners in

whose names any such Series 2013G Water Bonds are registered at the close of business on the day next preceding the date of payment of such defaulted interest. Both the principal of and premium, if any, on the Series 2013G Water Bonds shall be payable upon surrender thereof on their maturity or on redemption prior thereto at the Principal Office of the Trustee.

The Series 2013G Water Bonds shall be subject to redemption pursuant to Section 4.01.

(c) Maturity Dates; Rates of Interest. The Series 2013G Water Bonds shall mature on September 1 in the years and in the amounts, and shall bear interest at the rates per annum, as follows:

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2014	\$3,970,000	2.00%
2015	4,110,000	5.00
2016	4,320,000	5.00
2017	4,535,000	5.00
2018	4,760,000	5.00
2019	5,005,000	5.00
2020	5,260,000	5.00
2021	5,515,000	5.00
2022	5,795,000	5.00

SECTION 2.02. Execution of Series 2013G Water Bonds Transfer of Series 2013G Water Bonds. The Series 2013G Water Bonds shall be executed in the name and on behalf of the Authority with the manual or facsimile signature of its Treasurer attested by the manual or facsimile signature of its Secretary. The Series 2013G Water Bonds shall then be delivered to the Trustee for authentication by it.

In any case any officer whose signature appears on the Series 2013G Water Bonds shall cease to be such officer before the delivery of the Series 2013G Water Bonds to the purchaser thereof, such signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in office until such delivery of the Series 2013G Water Bonds.

Only those Series 2013G Water Bonds bearing thereon a certificate of authentication and registration in the form set forth in Exhibit A hereto, executed manually and dated by the Trustee, shall be entitled to any benefit, protection or security hereunder or be valid or obligatory for any purpose, and such certificate of the Trustee shall be conclusive evidence that the Series 2013G Water Bonds so authenticated and registered have been duly authorized, executed, issued and delivered hereunder and are entitled to the benefit, protection and security hereof.

Any Series 2013G Water Bond may, in accordance with the terms of this Trust Agreement, be transferred, upon the books of the Trustee required to be kept pursuant to the

provisions of Section 2.04, by the person in whose name it is registered, in person or by the attorney of such person duly authorized in writing, upon surrender of such Series 2013G Water Bond for cancellation, accompanied by a duly executed written instrument of transfer in a form approved by the Trustee. The Trustee shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer, and there shall be no other charge to any Owner for any such transfer.

Whenever any Series 2013G Water Bond shall be surrendered for transfer, the Trustee shall execute and deliver a new Series 2013G Water Bond or Series 2013G Water Bonds. No transfers of Series 2013G Water Bonds shall be required to be made after the Record Date and prior to the Interest Payment Date or during the period established by the Trustee for selection of Series 2013G Water Bonds for redemption. No registration of transfer shall be made of any Series 2013G Water Bond selected for redemption.

SECTION 2.03. Exchange of Series 2013G Water Bonds. Series 2013G Water Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Series 2013G Water Bonds of Authorized Denominations of the same maturity. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Owners for any such exchange.

No exchange of Series 2013G Water Bonds shall be required to be made after the Record Date and prior to the Interest Payment Date or during the period established by the Trustee for selection of Series 2013G Water Bonds for redemption. No registration of exchange shall be made of any Series 2013G Water Bond selected for redemption.

SECTION 2.04. Bond Registers. The Trustee shall keep or cause to be kept sufficient books for the registration and transfer of the Series 2013G Water Bonds which shall at all times during the Trustee's business hours be open to inspection by the Authority, the Trustee and the District; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Series 2013G Water Bonds as hereinbefore provided.

SECTION 2.05. Temporary Series 2013G Water Bonds. The Series 2013G Water Bonds may be issued initially in temporary form exchangeable for definitive Series 2013G Water Bonds when ready for delivery. The temporary Series 2013G Water Bonds may be printed, lithographed or typewritten, shall be in Authorized Denominations and may contain such reference to any of the provisions of this Trust Agreement as may be appropriate. Every temporary bond shall be executed and registered by the Trustee upon the same conditions and in substantially the same manner as the definitive Series 2013G Water Bonds; provided, however, that temporary Series 2013G Water Bonds may provide for payment of the principal thereof on one or more maturity dates and provide for payment of interest at one or more rates depending upon the maturity thereof. If the Trustee executes and delivers temporary Series 2013G Water Bonds, the Authority will prepare definitive Series 2013G Water Bonds without delay and the Trustee shall execute the same, and thereupon the temporary Series 2013G Water Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Office of the Trustee. The Trustee shall cancel such temporary Series 2013G Water Bonds and shall authenticate and

deliver in exchange for such temporary Series 2013G Water Bonds an equal aggregate principal amount of definitive Series 2013G Water Bonds of the same series of Authorized Denominations. Until so exchanged, the temporary Series 2013G Water Bonds shall be entitled to the same benefits under this Trust Agreement as definitive Series 2013G Water Bonds authenticated and delivered hereunder.

SECTION 2.06. Series 2013G Water Bonds Mutilated, Lost, Destroyed or Stolen. If any Series 2013G Water Bond shall become mutilated, the Trustee, at the expense of the Owner of said Series 2013G Water Bond, shall execute and deliver a new Series 2013G Water Bond of like tenor in exchange and substitution for the Series 2013G Water Bond so mutilated, but only upon surrender to the Trustee of the Series 2013G Water Bond so mutilated. Every mutilated Series 2013G Water Bond so surrendered to the Trustee shall be canceled by the Trustee, and shall be delivered to, or upon the order of, the Authority. If any Series 2013G Water Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and if such evidence be satisfactory to it and indemnity satisfactory to it shall be given, the Trustee, at the expense of the Owner, shall execute and deliver a new Series 2013G Water Bond of like tenor in lieu of and in substitution for the Series 2013G Water Bond so lost, destroyed or stolen (or if any such Series 2013G Water Bond shall have matured or shall be about to mature, instead of issuing a substitute Series 2013G Water Bond the Trustee may pay the same without surrender thereof). The Trustee may require payment of a reasonable fee for each new Series 2013G Water Bond issued under this section and payment of the expenses which may be incurred by the Authority or the Trustee. Any Series 2013G Water Bond executed and delivered under the provisions of this section in lieu of any Series 2013G Water Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Trust Agreement with all other Series 2013G Water Bonds secured hereby.

The Trustee shall not be required to treat both the original Series 2013G Water Bond and any replacement Series 2013G Water Bond as being Outstanding for the purpose of determining the amount of Series 2013G Water Bonds which may be executed and delivered hereunder or for the purpose of determining any percentage of Series 2013G Water Bonds Outstanding hereunder, but both the original and replacement Series 2013G Water Bond shall be treated as one and the same.

SECTION 2.07. Use of Depository. Notwithstanding any provision of the Trust Agreement to the contrary:

(a) The Series 2013G Water Bonds shall be initially issued as provided in Section 2.01. Registered ownership of the Series 2013G Water Bonds, or any portions thereof, may not thereafter be transferred except:

(i) To any successor of The Depository Trust Company or its nominee, or to any substitute depository designated pursuant to clause (ii) of this subsection (a) ("substitute depository"); provided that any successor of The Depository Trust Company or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) To any substitute depository not objected to by the Trustee, upon (1) the resignation of The Depository Trust Company or its successor (or any substitute depository or its successor) from its functions as depository, or (2) a determination by the Authority that The Depository Trust Company or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) To any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository which is not objected to by the Trustee can be obtained, or (2) a determination by the Authority that it is in the best interests of the Authority to remove The Depository Trust Company or its successor (or any substitute depository or its successor) from its function as depository.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection 2.07(a) hereof, upon receipt of all Outstanding Series 2013G Water Bonds by the Trustee, together with a Certificate of the Authority to the Trustee, a single new Series 2013G Water Bond for each maturity shall be executed and delivered, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Authority. In the case of any transfer pursuant to clause (iii) of subsection 2.07(a) hereof, upon receipt of all Outstanding Series 2013G Water Bonds by the Trustee together with a Certificate of the Authority to the Trustee, new Series 2013G Water Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such Certificate of the Authority, subject to the limitations of Section 2.01 hereof; provided the Trustee shall not be required to deliver such new Series 2013G Water Bonds within a period less than 60 days from the date of receipt of such Certificate of the Authority.

(c) In the case of partial redemption, cancellation or an advance refunding of any Series 2013G Water Bonds maturing in a particular year, The Depository Trust Company shall make an appropriate notation on such Series 2013G Water Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(d) The Authority and the Trustee shall be entitled to treat the person in whose name any Series 2013G Water Bond is registered as the Owner thereof for all purposes of the Trust Agreement and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee shall have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Series 2013G Water Bonds. Neither the Authority nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including The Depository Trust Company or its successor (or substitute depository or its successor), except for the Owner of any Series 2013G Water Bond.

(e) So long as all Outstanding Series 2013G Water Bonds are registered in the name of "Cede & Co." or its registered assign, the Authority and the Trustee shall cooperate with "Cede & Co.," as sole registered Owner, and its registered assigns in effecting payment of the

principals, redemption premium, if any, and interest on the Series 2013G Water Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

ARTICLE III

DELIVERY OF SERIES 2013G WATER BONDS

SECTION 3.01. Delivery of Series 2013G Water Bonds. Upon the sale and execution thereof by the Authority, the Trustee is hereby authorized to authenticate and deliver the Series 2013G Water Bonds in an aggregate principal amount of forty-three million two hundred seventy thousand dollars (\$43,270,000). The Trustee shall deliver the Series 2013G Water Bonds to or upon the Written Order of the Authority delivered to the Trustee.

SECTION 3.02. Application of Proceeds of Series 2013G Water Bonds. The proceeds received by the Authority from the sale of the Series 2013G Water Bonds shall be deposited with the Trustee, who shall forthwith apply the following amounts as follows:

(i) a sum equal to the amount of \$48,322,829.32, together with the contribution of the District in the amount of \$5,468,571.88, shall be applied by Wells Fargo, National Association, as the trustee for the Prior Water Bonds, to redeem the Prior Water Bonds; and

(ii) the remaining proceeds (namely \$345,270.91) shall be deposited into the Project Fund.

SECTION 3.03. Project Fund. The Trustee shall establish and maintain the Modesto Irrigation District Domestic Water Project Fund, Series 2013G. The moneys in the Project Fund shall be held by the Trustee in trust and applied to the payment of the costs of issuance of the Series 2013G Water Bonds, fees and premiums for any surety bond, bond insurance or other credit enhancement, the initial fees and expenses of the Trustee, printing costs, legal, accounting and engineering fees and other costs incidental therewith.

Before any payment is made from the Project Fund by the Trustee, there shall be filed with the Trustee a requisition signed by an Authorized District Representative conforming with the requirements of this Section, substantially in the form of Exhibit C hereto, stating with respect to each payment to be made:

- (1) the requisition number;
- (2) the name and address of the person to whom payment is due;
- (3) the purpose for which such payment is to be made;
- (4) the amount to be paid;

(5) that each obligation mentioned therein has been properly incurred and is a proper charge against the Project Fund; and

(6) that none of the items for which payment is requested has been previously reimbursed from the Project Fund.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein. Upon receipt of each such requisition, the Trustee shall pay the amount set forth therein as directed by the terms thereof.

When all costs payable from the Project Fund have been paid, the District shall deliver to the Trustee a Certificate of the District stating that all such costs have been paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such certificate, the Trustee shall transfer any remaining balance in the Project Fund (but less the amount of any such retention) in accordance with a Written Request of the District to be deposited in the Domestic Water Project Revenue Fund established under the Installment Purchase Contract, and the Trustee shall thereupon close the Project Fund.

ARTICLE IV

REDEMPTION OF SERIES 2013G WATER BONDS

SECTION 4.01. Redemption of Series 2013G Water Bonds. (a) General. The Series 2013G Water Bonds are subject to redemption to the extent the District is entitled or required to make and makes a prepayment pursuant to Article VI of the Installment Purchase Contract. The Trustee shall not call the Series 2013G Water Bonds for redemption, and the Trustee shall not give notice of any such redemption, unless the District has so directed in writing and all required Installment Payments under the Installment Purchase Contract have been made. The preceding sentence shall not apply to the Series 2013G Water Bonds redeemed pursuant to Section 4.01 (b)(i) hereof.

(b) Redemption Provision. The Series 2013G Water Bonds shall be subject to redemption prior to maturity as a whole on any date or in part selected randomly (in Authorized Denominations) on any Interest Payment Date, from prepaid Installment Payments made by the District from funds received by the District due to a casualty loss or governmental taking of the Domestic Water System or portions thereof by eminent domain proceedings, under the circumstances and upon the conditions and terms prescribed herein and in the Installment Purchase Contract, at a redemption price equal to the principal amount of the Series 2013G Water Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium.

SECTION 4.02. Selection of Series 2013G Water Bonds for Redemption. If less than all of the Series 2013G Water Bonds of any one maturity are to be redeemed on any one date, the Trustee shall select the Series 2013G Water Bonds of such maturity randomly in a manner which the Trustee deems to be fair; provided, however, that with respect to Insured

Series 2013G Water Bonds which are redeemed in part pursuant to subsection 4.01(b) above, the selection of such Insured Series 2013G Water Bonds shall be subject to the approval of the Bond Insurer. The Trustee shall promptly notify the Authority in writing of the numbers of the Series 2013G Water Bonds or portions thereof so selected for redemption. The District may select the maturities of the Series 2013G Water Bonds to be redeemed by filing a Written Request of the District with the Trustee.

SECTION 4.03. Notice of Redemption. After receipt of the notice specified in Section 6.02 of the Installment Purchase Contract, notice of redemption shall be given by the Trustee for and on behalf of the Authority, by mail, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to (i) the Authority, (ii) the Owner of each Series 2013G Water Bond to be redeemed at the address shown on the registration books of the Trustee on the date such notice is mailed, (iii) the Securities Depositories and (iv) the Repository. Each notice of redemption shall state the date of such notice, the date of issuance of the Series 2013G Water Bonds, the redemption date, the redemption prices, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number of the Series 2013G Water Bonds, the source of the funds to be used for such redemption, the principal amount of the Series 2013G Water Bonds to be redeemed, the distinctive bond numbers of the Series 2013G Water Bonds or portions thereof to be redeemed, the rate of interest payable on the Series 2013G Water Bonds to be redeemed and the maturity date of the Series 2013G Water Bonds to be redeemed, and shall also state that the interest payable on the Series 2013G Water Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Series 2013G Water Bonds the principal amount of the Series 2013G Water Bonds to be redeemed, interest accrued thereon to the redemption date and the premium, if any, thereon (such premium to be specified) and shall require that such Series 2013G Water Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Any notice mailed as provided shall be conclusively presumed to have been given, whether or not such Owner receives the notice.

SECTION 4.04. Partial Redemption of Series 2013G Water Bonds. Upon surrender of any Series 2013G Water Bond redeemed in part only, the Trustee shall provide a replacement Series 2013G Water Bond in a principal amount equal to the portion of such Series 2013G Water Bond not redeemed, and deliver it to the Owner thereof. The Series 2013G Water Bond so surrendered shall be canceled by the Trustee as provided herein. The Authority, the District and the Trustee shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

SECTION 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee, the Series 2013G Water Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Series 2013G Water Bonds so called for redemption shall cease to accrue, said Series 2013G Water Bonds shall cease to be entitled to any lien, benefit or security under this Trust Agreement, and the Owners of said Series 2013G Water Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Series 2013G Water Bonds fully redeemed pursuant to the provisions of this Article IV shall be canceled upon surrender thereof and may be destroyed by the Trustee pursuant to its retention policies then in effect.

ARTICLE V

REVENUES

SECTION 5.01. Pledge of Revenues. The Trustee hereby accepts the assignment set forth in Section 5.04. All Revenues and any other amounts (including proceeds of the sale of the Series 2013G Water Bonds) held by the Trustee in any fund or account established hereunder (other than amounts on deposit in the Rebate Fund created pursuant to Section 6.04) are hereby irrevocably pledged to the payment of the interest on and principal of the Series 2013G Water Bonds as provided herein, and the Revenues shall not be used for any other purpose while any of the Series 2013G Water Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted hereunder. This pledge shall constitute a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established hereunder (other than amounts on deposit in the Rebate Fund created pursuant to Section 6.04) for the payment of the interest on and principal of the Series 2013G Water Bonds in accordance with the terms hereof and thereof.

SECTION 5.02. Receipt and Deposit of Revenues. (a) In order to carry out and effectuate the pledge, charge and lien contained herein, the Authority agrees and covenants that all Revenues when and as received shall be received by the Authority in trust hereunder for the benefit of the Holders and shall be deposited when and as received by the Authority in the Series 2013G Revenue Fund which fund is hereby created and which fund the Authority hereby agrees and covenants to maintain with the Trustee so long as any Series 2013G Water Bonds shall be Outstanding hereunder. All Revenues shall be accounted for through and held in trust in the Series 2013G Revenue Fund and the Authority shall have no beneficial right or interest in any of the Revenues except only as herein provided. All Revenues, whether received by the Authority in trust or deposited with the Trustee as herein provided, shall nevertheless be allocated, applied and disbursed solely for the purposes and uses hereinafter in this Article set forth, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

(b) Subject to Section 5.05 of the Installment Purchase Contract and Section 6.04 hereof, all money in the Series 2013G Revenue Fund shall be set aside by the Trustee in the following respective special accounts within the Series 2013G Revenue Fund (each of which is hereby created and each of which the Authority hereby covenants and agrees to cause to be maintained) in the following order of priority:

- (i) Interest Account,
- (ii) Principal Account,
- (iii) Redemption Account, and

(iv) Surplus Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this section. The Trustee may establish a temporary fund or account in its records to facilitate any transfer of amounts in any fund or account hereunder.

(i) Interest Account. The Trustee on or before the Interest Payment Date shall deposit in the Interest Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of interest coming due and payable on all Outstanding Series 2013G Water Bonds on such Interest Payment Date. Except as provided in Section 5.05 of the Installment Purchase Contract and Section 6.04 hereof, moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series 2013G Water Bonds when due and payable.

(ii) Principal Account. The Trustee on or before September 1 of each year shall deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to the aggregate principal amount of all Outstanding Series 2013G Water Bonds becoming due and payable on such September 1, plus the aggregate amount of all sinking fund payments required to be made with respect to the Series 2013G Water Bonds that are term bonds. Except as provided in Section 5.05 of the Installment Purchase Contract and Section 6.04 hereof, moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Series 2013G Water Bonds when due and payable, provided that all sinking fund payments deposited into the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming or paying at maturity the Series 2013G Water Bonds for which such sinking fund payment was made.

(iii) Redemption Account. The Trustee, on the date specified in the Written Request of the District filed with the Trustee pursuant to Section 6.02 of the Installment Purchase Contract at the time that any prepaid Installment Payment is paid to the Trustee, shall deposit in the Redemption Account that amount of money representing the portion of the Installment Payments designated as prepaid Installment Payments. Except as provided in Section 5.05 of the Installment Purchase Contract and Section 6.04 hereof, moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of, redemption premiums, if any, and interest on the Series 2013G Water Bonds to be redeemed.

(iv) Surplus Account. The Trustee, on or before September 1 of each year, beginning on September 1, 2014, shall deposit in the Surplus Account all money remaining in the Series 2013G Revenue Fund after the deposits, if any, required by Section 5.05 of the Installment Purchase Contract and Section 5.04 hereof and subsections (i), (ii) and (iii) of this section have been made. Amounts on deposit in the Surplus Fund shall initially be applied to pay any amounts due and owing to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy. Once such amounts have been made, then beginning on September 2 of each year, beginning on September 2, 2014, the Trustee, if the District is not then in default under the Trust Agreement and the Installment Purchase Contract, shall disburse the money in the Surplus Account to the District unless any money in the Surplus Account is or will be required for the payment of the principal of or interest on the Series 2013G Water Bonds on

the next succeeding Interest Payment Date (assuming for the purpose of such determination that the District shall pay when due all Installment Payments required by the Installment Purchase Contract), in which event such money shall be held in the Surplus Account for such purpose.

SECTION 5.03. Investment of Moneys. Subject to the limitations in Sections 5.01 and 5.05 hereof, any moneys in any of the funds and accounts to be established by the Trustee pursuant to this Trust Agreement shall be invested by the Trustee in Permitted Investments upon the Written Request of the District or upon telephone request of the District promptly confirmed in writing. Moneys in any fund or account (other than the Rebate Fund) shall be invested in Permitted Investments with respect to which payments of principal thereof and interest thereon are scheduled or otherwise payable not later than the date on which it is estimated that such moneys will be required by the Trustee.

For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at the lower of cost (inclusive of all interest accrued but not paid) or market value.

Any interest, profit or loss on such investments shall be credited or charged to the respective funds from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment. The Trustee shall not be liable or responsible for any loss resulting from such sale or redemption of such investment.

The Trustee may commingle any of the funds or accounts (other than the Rebate Fund) established pursuant to this Trust Agreement into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee hereunder shall be accounted for separately as required by this Trust Agreement. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell at the best price obtainable, or present for redemption, any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investment is credited. The Trustee shall not be liable or responsible for any loss resulting from any investment made pursuant to this Section 5.03. Subject to the other requirements of this Section 5.03, absent directions from the District as to the investment of funds, the Trustee shall invest in the Wells Fargo Advantage Fund or a successor fund offered by the Trustee.

To the extent that any of the requirements concerning Permitted Investments embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party that such requirement has been met.

SECTION 5.04. Assignment to Trustee; Enforcement of Obligations. (a) The Authority hereby transfers, assigns and sets over to the Trustee all of the Installment Payments and other Revenues and any and all rights and privileges it has under the Installment Purchase Contract including, without limitation, the right to collect and receive directly all of the Installment Payments and the right to hold and enforce any security interest, and any Installment Payments collected or received by the Authority shall be deemed to be held, and to have been

collected or received, by the Authority as the agent of the Trustee, and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall take all steps, actions and proceedings required to be taken as provided in any opinion of Bond Counsel delivered to it, reasonably necessary to maintain in force for the benefit of the Owners of the Series 2013G Water Bonds the Trustee's rights in and priority to the following security granted to it for the payment of the Series 2013G Water Bonds: the Trustee's rights as assignee of the Installment Payments and other Revenues and all other rights and privileges under the Installment Purchase Contract and as beneficiary of any other rights to security for the Series 2013G Water Bonds which the Trustee may receive in the future.

(b) The Trustee may, in performing the obligations set out in Section 5.04(a) above, rely and shall be protected in acting or refraining from acting upon an opinion of Bond Counsel furnished by the District.

SECTION 5.05. Repayment to District. When there are no longer any Series 2013G Water Bonds Outstanding, and all fees, charges and expenses of the Trustee have been paid or provided for, and all expenses of the Authority relating to the Project and this Trust Agreement have been paid or provided for, and all amounts due and owing to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy have been paid, and all other amounts payable hereunder, including without limitation the Rebate Requirement, and under the Installment Purchase Contract have been paid, and this Trust Agreement has been discharged and satisfied, the Trustee shall pay to the District any amounts remaining in any fund established and held hereunder.

ARTICLE VI

COVENANTS OF THE AUTHORITY AND THE TRUSTEE

SECTION 6.01. Punctual Payment and Performance. The Authority will punctually pay out of the Revenues the interest on and the principal of and redemption premiums, if any, to become due on every Series 2013G Water Bond issued hereunder in strict conformity with the terms hereof and of the Series 2013G Water Bonds, and will faithfully observe and perform all of the agreements and covenants to be observed or performed by the Authority contained herein and in the Series 2013G Water Bonds.

SECTION 6.02. Compliance with Installment Purchase Contract and Treatment and Delivery Agreement. The District and the Authority will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract and in the Treatment and Delivery Agreement required to be complied with, kept, observed and performed by the District and the Authority and the Trustee will, to the extent required hereunder, enforce such document against the District in accordance with its terms.

The Authority will not alter, amend or modify the Installment Purchase Contract without the prior written consent of the Trustee and the Bond Insurer. Such consent of the

Trustee shall be given only (i) if the Trustee receives an opinion of Bond Counsel which states that such alterations, amendments or modifications will not result in any material impairment of the security given or intended to be given for the payment of the Installment Payments, or (ii) if the Trustee first obtains the written consents of Owners of at least sixty per cent (60%) in aggregate principal amount of the Series 2013G Water Bonds then Outstanding to such alterations, amendments or modifications; provided, however, that Section 5.05 of the Installment Purchase Contract may be amended upon receipt of an opinion of Bond Counsel that any specified action required under Section 5.05 is no longer required, or some further or different action is required, to maintain the exclusion from federal income tax of interest on the Series 2013G Water Bonds.

The District will not alter, amend or modify the Treatment and Delivery Agreement without the prior written consent of the Trustee and the Bond Insurer. Such consent of the Trustee shall be given only (i) if the Trustee receives a Certificate of the District to the effect that such alterations, amendments or modifications will not result in any material impairment of the security given or intended to be given for the payment of the Installment Payments, or (ii) if the Trustee first obtains the written consent of the Owners of at least sixty per cent (60%) in aggregate principal amount of the Series 2013G Water Bonds then Outstanding to such alterations, amendments or modifications.

SECTION 6.03. Observance of Laws and Regulations. The Authority and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

SECTION 6.04. Tax Covenants. (a) The District and the Authority each covenant that it will not take any action, or fail to take any action, if any such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Series 2013G Water Bonds under Section 103 of the Code. The Authority and the District covenant that they will not directly or indirectly use or permit the use of any proceeds of the Series 2013G Water Bonds or any other funds of the Authority or the District or take or permit to be taken or omit or permit the omission of any action or actions that would cause the Series 2013G Water Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Authority and the District will comply with all applicable requirements of Section 148 of the Code and all applicable regulations of the United States Department of the Treasury. In the event that at any time the Authority or the District as its agent is of the opinion that for purposes of this Section 6.04 or Section 5.05 of the Installment Purchase Contract it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under this Trust Agreement or the Installment Purchase Contract or otherwise, the Authority or the District shall so instruct the Trustee in writing, and the Trustee shall take the action required by such instructions.

(b) The District shall establish and maintain a fund designated the Rebate Fund separate from any other fund established and maintained under the Installment Purchase Contract. The District shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of this Section 6.04 and Section 5.05 of the Installment Purchase Contract, moneys held in the Rebate Fund are hereby pledged to secure payments to the United States government, and the Authority, the District, and the Owners shall have no rights in or claim to such moneys.

Without limiting the generality of the foregoing, the Authority and the District agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final treasury regulations as may be applicable to the Series 2013G Water Bonds from time to time. This covenant shall survive payment in full or defeasance of the Series 2013G Water Bonds. The Authority and the District specifically covenant to pay or cause to be paid to the United States at the times and in the amounts determined under Section 6.04 hereof, the Rebate Requirement, as described in the Tax Certificate. The Trustee agrees to comply with all Rebate Instructions given in accordance with this covenant.

If the Rebate Instructions so direct, the Trustee shall transfer moneys to the District for deposit into the Rebate Fund from such accounts or funds as the Rebate Instructions direct. The Trustee shall conclusively be deemed to have complied with the provisions of this Section 6.04 and Section 5.05 of the Installment Purchase Contract if it follows the directions of the District set forth in the Rebate Instructions and shall not be required to take any actions hereunder in the absence of Rebate Instructions from the District.

(c) Notwithstanding any provision of this Section 6.04 or Section 5.05 of the Installment Purchase Contract, if the District shall provide to the Trustee an opinion of Bond Counsel that any specified action required under this Section 6.04 or Section 5.05 of the Installment Purchase Contract, is no longer required or that some further or different action is required to maintain the tax-exempt status of interest on the Series 2013G Water Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants hereunder shall be deemed to be modified to that extent.

SECTION 6.05. Against Encumbrances. So long as any Series 2013G Water Bonds are Outstanding, the Authority will not create or suffer to be created any pledge of or lien on the Installment Payments or other Revenues other than the pledge and lien hereof, and will not issue any bonds, notes or obligations payable from the Installment Payments or other Revenues or secured by a pledge of or charge or lien upon the Installment Payments or other Revenues except the Series 2013G Water Bonds.

SECTION 6.06. Prosecution and Defense of Suits. The Authority will defend against every action, suit or other proceeding at any time brought against the Trustee or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Installment Payments or other Revenues or involving the rights of the Trustee or any Owner hereunder; provided, however, that the Trustee or any Owner at its or such Owner's election may appear in and defend any such action, suit or other proceeding. The Authority will indemnify

and hold harmless the Trustee and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights hereunder or under the Series 2013G Water Bonds, provided that such litigation shall be concluded favorably to such Owners' contentions therein.

SECTION 6.07. Accounting Records and Statements. The Trustee will keep proper accounting records in accordance with the Trustee's standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Installment Payments, all other Revenues and the proceeds of the Series 2013G Water Bonds, and such accounting records shall be available for inspection by the District or any agent duly authorized in writing at reasonable hours and under reasonable conditions. Not later than the fifteenth (15th) day of each calendar month commencing on September 15, 2013 and continuing so long as any Series 2013G Water Bonds are Outstanding, the Trustee will furnish, or cause to be furnished to the Authority a complete statement covering the receipts, investment, deposits, application and disbursements of the Installment Payments and all other Revenues for the immediately preceding calendar month.

Such records shall specify the account or fund to which each investment (or portion thereof) held pursuant to this Trust Agreement is to be allocated and shall set forth, in the case of each Permitted Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, (d) the amounts and dates of any payments made with respect thereto, and (e) such other documentation as is required by the Authority in writing.

SECTION 6.08. Recording and Filing. The Trustee upon receipt of a Written Request of the Authority shall file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Installment Purchase Contract, the Treatment and Delivery Agreement and the Trust Agreement at all times as a security interest in the Revenues and the Installment Payments, all in such manner, at such times and in such places as may be required by such Written Request of the Authority and to the extent permitted by law in order to fully perfect, preserve and protect the security of the Owners and the rights and security interests of the Trustee, and the Trustee may do whatever else may be necessary or be reasonably required by such Written Request of the Authority in order to perfect and continue the lien of the Installment Purchase Contract, the Treatment and Delivery Agreement and the Trust Agreement; provided, however, that the Trustee will not be required to execute a special or general consent to service of process, or to qualify as a foreign corporation in connection with any such filing, recording, registration, refile or rerecording in any jurisdiction in which it is not now so subject.

SECTION 6.09. Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or required

in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred upon them hereby.

SECTION 6.10. Continuing Disclosure.

Neither the District nor the Authority shall have any responsibility or liability to the Owners of the Series 2013G Water Bonds or any other person with respect to the continuing disclosure requirements contained in the Continuing Disclosure Agreement. The Trustee hereby covenants and agrees that it will comply with and carry out all of the provisions applicable to the Trustee of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Trust Agreement, failure of the City or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2013G Water Bonds, shall) or any Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Continuing Disclosure Agreement or to cause the Trustee to comply with its obligations under this Section 6.10.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. Events of Default and Acceleration of Maturities. If one or more of the following events (herein called "Events of Default") shall happen, that is to say:

(a) if default shall be made in the due and punctual payment of the interest on any Series 2013G Water Bond when and as the same shall become due and payable;

(b) if default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Series 2013G Water Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Authority in the performance of any of the other agreements or covenants required herein to be performed by the Authority, and such default shall have continued for a period of sixty (60) days after the Authority shall have been given notice in writing of such default by the Trustee;

(d) if an Event of Default (as that term is defined in the Installment Purchase Contract) shall happen; or

(e) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court

of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default the Trustee may, and shall, at the direction of the Owners of not less than a majority in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, by notice in writing to the Authority, declare the principal of all Series 2013G Water Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained herein or in the Series 2013G Water Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Owners of any such Event of Default which is continuing. Such notice shall include a reference to or a summary of the rights and remedies available to the Owners as set forth herein.

This provision, however, is subject to the condition that if at any time after the principal of the Series 2013G Water Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the Authority shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Series 2013G Water Bonds and all principal of the Series 2013G Water Bonds matured prior to such declaration, with interest at the rate borne by such Series 2013G Water Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee (including but not limited to the fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Series 2013G Water Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Owners of not less than a majority in aggregate principal amount of Series 2013G Water Bonds then Outstanding by written notice to the Authority and to the Trustee, may on behalf of the Owners of all the Series 2013G Water Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

SECTION 7.02. Application of Funds Upon Acceleration. All moneys in the accounts and funds provided in Sections 3.03 and 5.05 upon the date of the declaration of acceleration by the Trustee as provided in Section 7.01 and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Authority hereunder shall be transmitted to the Trustee and shall be applied by the Trustee in the following order--

First, to the payment of the fees, costs and expenses of the Owners in providing for the declaration of such Event of Default, and in taking any remedial action with respect thereto, including reasonable compensation to its agents, attorneys and counsel, and including such other necessary costs relating to the administration of the foregoing and to events leading up thereto and any other outstanding fees and expenses of the Trustee relating to its duties under this Trust Agreement; and

Second, upon presentation of the several Series 2013G Water Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Series

2013G Water Bonds for interest and principal, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such Series 2013G Water Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Series 2013G Water Bonds, then to the payment of such interest, principal and (to the extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal; and

Third, to the payments of amounts due and owing to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy.

SECTION 7.03. Institution of Legal Proceedings by Trustee. If one or more of the Events of Default shall happen and be continuing, the Trustee in its discretion may, and shall, at the direction of the Owners of a majority in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, proceed to protect or enforce its rights or the rights of the Owners of Series 2013G Water Bonds under this Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties hereunder.

SECTION 7.04. Non-Waiver. Nothing in this article or in any other provision hereof or in the Series 2013G Water Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of and redemption premiums, if any, on the Series 2013G Water Bonds to the respective Owners of the Series 2013G Water Bonds at the respective dates of maturity or upon prior redemption as provided herein from the Revenues as provided herein pledged for such payment, or shall affect or impair the right of such Owners, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein and in the Series 2013G Water Bonds.

A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by any Owner to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Owners by the Act or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the Authority and any Owner shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

SECTION 7.05. Actions by Trustee as Attorney-in-Fact. Any action, proceeding or suit which any Owner shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners, whether or not

the Trustee is an Owner, and the Trustee is hereby appointed (and the successive Owners, by taking and holding the Series 2013G Water Bonds issued hereunder, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Owners for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Owners as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

SECTION 7.06. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

SECTION 7.07. Limitation on Owners' Right to Sue. No Owner of any Series 2013G Water Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon this Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default as defined in Section 7.01 hereunder; (b) the Owners of at least a majority in aggregate principal amount of all the Series 2013G Water Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) said Owners shall have tendered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any owner of Series 2013G Water Bonds of any remedy hereunder; it being understood and intended that no one or more Owners of Series 2013G Water Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Trust Agreement, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of the Trust Agreement shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Series 2013G Water Bonds.

SECTION 7.08. No Liability by the District to the Owners. Except for the payment when due of the Installment Payments and the performance of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or herein, the District shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, issuance, execution, delivery or transfer of the Series 2013G Water Bonds or to the disbursement of the Revenues by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained herein.

SECTION 7.09. No Liability by the Trustee to the Owners. Except as expressly provided herein, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by the District or with respect to the

performance by the District of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or herein.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Trust Agreement. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Trust Agreement, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

No provision of this Trust Agreement shall be construed to relieve the Trustee from liability for its own negligent action or negligent failure to act or willful misconduct, except that:

(a) Prior to such an Event of Default hereunder and after the curing of all Events of Default which may have occurred,

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Trust Agreement, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Trust Agreement, and no implied covenants or obligations shall be read into this Trust Agreement against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the requirements of this Trust Agreement; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(1) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(2) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority, or such larger percentage as may be required hereunder, in aggregate principal amount of the Series 2013G Water Bonds at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under this Trust Agreement.

None of the provisions contained in this Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

SECTION 8.02. [Right of Trustee to Rely upon Documents, Etc.](#) Except as otherwise provided in Section 8.01:

(a) The Trustee may rely and shall be protected in acting upon any resolution, bond, statement, instrument, opinion, report, notice, request, consent, order, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any notice, request, direction, election, order or demand of the Authority mentioned herein shall be sufficiently evidenced by an instrument signed in the name of the Authority by an Authorized Authority Representative, and any resolution of the Authority may be evidenced to the Trustee by a Certified Resolution;

(c) The Trustee may consult with counsel (who may be counsel for the Authority or Bond Counsel) and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel;

(d) Whenever in the administration of the trusts of this Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority; and such Certificate of the Authority shall, in the absence of negligence or willful misconduct on the part of the Trustee, be full warrant to the Trustee for any action taken or suffered by it under the provisions of this Trust Agreement upon the faith thereof; and

(e) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any willful misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 8.03. [Trustee Not Responsible for Recitals.](#) (a) The recitals contained herein and in the Series 2013G Water Bonds shall be taken as the statements of the Authority, and the Trustee assumes no responsibility for the correctness of the same except for the certificate of authentication and registration thereon. The Trustee makes no representations as to the validity or sufficiency of this Trust Agreement or of the Installment Purchase Contract or of the pledge of the Revenues or of the assignment of the right to receive Installment Payments or of the Series 2013G Water Bonds. The Trustee shall not be accountable for the use or application by the Authority or the District of any of the Series 2013G Water Bonds authenticated or delivered hereunder or of the proceeds of such Series 2013G Water Bonds.

(b) Except as provided herein neither the Trustee nor the Authority shall have any obligation or liability to the Owners of the Series 2013G Water Bonds with respect to the

payment of the Installment Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Installment Purchase Contract.

(c) In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners of Series 2013G Water Bonds and not in its individual capacity and all persons, including, without limitation, the Owners, having any claim against the Trustee arising from the Trust Agreement shall look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Series 2013G Water Bonds.

(d) The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specification or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the District or the Authority of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Installment Purchase Contract or this Trust Agreement for the existence, furnishing or use of the Project.

(e) The Trustee shall not be deemed to have knowledge of an event of default or Event of Default unless it has actual knowledge thereof.

SECTION 8.04. Right of Trustee to Acquire Series 2013G Water Bonds. The Trustee and its officers and directors may acquire and hold, or become the pledgee of, Series 2013G Water Bonds and otherwise deal with the Authority in the manner and to the same extent and with like effect as though it were not Trustee hereunder.

SECTION 8.05. Moneys Received by Trustee to Be Held in Trust. Subject to the provisions of Section 10.03, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. Any interest allowed on any such moneys shall be deposited in the fund to which such moneys are credited. Any moneys held by the Trustee may be deposited by it in its banking department and invested as provided herein.

SECTION 8.06. Compensation and Indemnification of Trustee. The Authority shall cause the District from time to time, subject to any agreement then in effect with the Trustee, to pay the Trustee compensation for its services and reimburse the Trustee for all its advances and expenditures hereunder, including but not limited to advances to and fees and expenses of accountants, agents, appraisers, consultants, counsel or other experts employed by it in the exercise and performance of its rights and obligations hereunder; provided, however, that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds established hereunder, although it may take whatever legal actions are lawfully available to it directly against the District.

The District shall, to the extent permitted by law, indemnify and hold harmless the Trustee to the extent and in the amounts provided by the laws of the State of California from

and against all claims, damages and losses, including legal fees and expenses, arising out of (i) the condition, management, maintenance or use of or from any work or thing done in connection with the Project by the District, (ii) any act of negligence of the District or of any of its agents, contractors, employees, invitees, licensees, officers or servants in connection with the Project, (iii) the authorization of payment of any costs of the Project by the District, (iv) the performance of the duties and obligations of the Trustee under the Trust Agreement or (v) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Series 2013G Water Bonds; provided that no indemnification will be made for willful misconduct or negligence of the Trustee. This paragraph shall survive resignation or removal of the Trustee. The District further agrees, to the extent permitted by law, to pay or to reimburse the Trustee and its officers, employees and agents for any and all costs, attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such claims, liabilities, damages, expenses, or losses.

No provision of this Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

SECTION 8.07. Qualifications of Trustee. There shall at all times be a trustee hereunder which shall be a bank, trust company or national association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination by federal or state authority. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such corporations or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect specified in Section 8.08.

SECTION 8.08. Resignation and Removal of Trustee and Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice to the Authority and by giving to the Owners Notice by Mail. Upon receiving such notice of resignation, the Authority, with the advice and consent of the District, shall promptly appoint a successor trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within thirty days after the giving of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee or any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months may, on behalf of itself and others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor trustee.

(b) In case at any time either of the following shall occur:

(1) the Trustee shall cease to be eligible in accordance with the provisions of Section 8.07 and shall fail to resign after written request therefor by the Authority or by any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months, or

(2) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Authority may remove the Trustee and appoint a successor trustee by an instrument in writing, or any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee and appoint a successor trustee.

(c) The Authority or Owners of a majority in aggregate principal amount of the Series 2013G Water Bonds at the time Outstanding may at any time remove the Trustee and appoint a successor trustee by an instrument or concurrent instruments in writing signed by the Authority or such Owners, as the case may be.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section shall become effective upon acceptance of appointment by the successor trustee acceptable to the Authority and the District, as provided in Section 8.09.

(e) Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under Section 8.07 hereof and acceptable to the Authority and the District, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.09. Acceptance of Trust by Successor Trustee. Any successor trustee appointed as provided in Section 8.08 shall execute, acknowledge and deliver to the Authority and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the Written Request of the Authority or the request of the successor trustee, the trustee ceasing to act shall execute and deliver an instrument transferring to such successor trustee, upon the trusts herein expressed, all the rights, powers and trusts of the trustee so ceasing to act. Upon request of any such successor trustee, the Authority shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor trustee all such rights,

powers and duties. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by Section 8.06.

No successor trustee shall accept appointment as provided in this Section 8.09 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of Section 8.07.

Upon acceptance of appointment by a successor trustee as provided in this Section, the Authority or such successor trustee shall give Owners notice of the succession of such trustee to the trusts hereunder in the manner prescribed in Section 8.08 for the giving of notice of resignation of the Trustee.

SECTION 8.10. General Applicability. Whether or not therein expressly so provided, every provision of the Trust Agreement and the Installment Purchase Contract relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article VIII.

SECTION 8.11. Trustee Not Responsible for Closing Conditions. The Trustee shall have no responsibility for or liability in connection with assuring that all of the procedures or conditions to closing set forth in the contract of purchase relating to the Series 2013G Water Bonds have been met on the date the Series 2013G Water Bonds are initially delivered or, that all documents required to be delivered on such date to the parties are actually delivered, except its own responsibility to receive the proceeds of the sale, deliver the Series 2013G Water Bonds and other Certificates expressly required to be delivered by it and its counsel.

The Trustee may assume that parties to the contract of purchase relating to the Series 2013G Water Bonds have waived their rights to receive documents or to require the performance of procedures if the parties to whom such documents are to be delivered or for whom such procedures are to be performed do not require delivery or performance on or prior to the date the Series 2013G Water Bonds are initially delivered.

SECTION 8.12. Acceptance of Duties as Depositary. The Trustee hereby accepts the functions, duties and obligations of Depositary as defined in the Installment Purchase Contract and agrees to act as depositary for the Series 2013G Reserve Fund subject to the terms and conditions of the Installment Purchase Contract and the Trust Agreement. Every provision of the Trust Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee shall apply to the Trustee in its performance of the functions, duties and obligations of Depositary.

ARTICLE IX

MODIFICATION OF TRUST AGREEMENT

SECTION 9.01. Amendment or Supplement of Trust Agreement. The Trust Agreement and the rights and obligations of the Authority, the District, the Bond Insurer, the

Owners and the Trustee hereunder may be amended or supplemented at any time by an amendment hereof or supplement hereto which shall become binding when the written consents of the Owners of sixty percent (60%) in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, exclusive of Series 2013G Water Bonds disqualified as provided in Section 9.02, and the prior written consent of the Bond Insurer are filed with the Trustee. No such amendment or supplement shall (1) extend the stated payment date of any Series 2013G Water Bond, or reduce the rate of interest thereon, or extend the time of payment of such interest, or reduce the amount of principal thereof, or reduce any redemption premium thereon, without the prior written consent of the Owner of the Series 2013G Water Bond so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment hereof or supplement hereto, or (3) modify any of the rights or obligations of the Trustee or the Bond Insurer without their respective prior written consents thereto.

The Trust Agreement and the rights and obligations of the Authority, the District, the Owners and the Trustee hereunder may also be amended or supplemented at any time by an amendment hereof or supplement hereto which shall become binding upon execution without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving opinion of Bond Counsel and only for any one or more of the following purposes --

(a) to add to the agreements, conditions, covenants and terms required by the Authority or the District to be observed or performed herein, other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the District, or to surrender any right or power reserved herein to or conferred herein on the Authority or District, and which in either case shall not adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the Authority or the District may deem desirable or necessary and not inconsistent herewith, and which shall not adversely affect the interests of the Owners;

(c) to modify, amend or supplement this Trust Agreement or any trust agreement supplemental hereto in such manner as to permit the qualification hereof or thereof under the Trust Agreement Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to this Trust Agreement or any trust agreement supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall not adversely affect the interests of the Owners of the Series 2013G Water Bonds;

(d) to provide for the procedures required to permit any Owner, at its option, to utilize an uncertificated system of registration of its Series 2013G Water Bond;

(e) to provide for any additional procedures, covenants or agreements necessary to maintain the tax-exempt status of interest on the Series 2013G Water Bonds; or

(f) to provide for the procedures required to permit any Owner to separate the right to receive interest on the Series 2013G Water Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code.

Any amendment or supplement to the Trust Agreement which affects any rights, power, liability or obligation of the Trustee shall not become effective or enforceable against the Trustee unless and until the Trustee shall have consented thereto.

SECTION 9.02. Disqualified Series 2013G Water Bonds. Series 2013G Water Bonds owned or held by or for the account of the District or Authority (but excluding Series 2013G Water Bonds held in any pension or retirement fund of the District) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Series 2013G Water Bonds provided in this Article, and shall not be entitled to consent to or take any other action provided in this Article, and the Trustee may adopt appropriate regulations to require each Owner, before consent provided for herein shall be deemed effective, to reveal if the Series 2013G Water Bonds as to which such consent is given are disqualified as provided in this Section. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 9.03. Endorsement or Replacement of Series 2013G Water Bonds After Amendment or Supplement. After the effective date of any action taken as hereinabove provided, the Authority may determine that the Series 2013G Water Bonds bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Owner of any Outstanding Series 2013G Water Bond and presentation of such Owner's Series 2013G Water Bond for such purpose at the Principal Office of the Trustee a suitable notation as to such action shall be made on such Series 2013G Water Bond. If the Authority shall so determine, new Series 2013G Water Bonds so modified as in the opinion of the Authority shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Series 2013G Water Bonds such new Series 2013G Water Bonds shall be exchanged at the Principal Office of the Trustee without cost to each Owner for Series 2013G Water Bonds then Outstanding upon surrender of such Outstanding Series 2013G Water Bonds.

SECTION 9.04. Amendment by Mutual Consent. The provisions of this article shall not prevent any Owner from accepting any amendments to the particular Series 2013G Water Bonds held by such Owner, provided that due notation thereof is made on such Series 2013G Water Bonds.

ARTICLE X

DEFEASANCE

SECTION 10.01. Discharge of Trust Agreement. When the obligations of the District under the Installment Purchase Contract shall cease pursuant to Article VIII of the Installment Purchase Contract (except for the right of the Trustee and the obligation of the District to have the money and Permitted Investments mentioned therein applied to the payment of Installment Payments as therein set forth), then and in that case the obligations created by this Trust Agreement shall thereupon cease, terminate and become void except for the right of the Owners and the obligation of the Trustee to apply such moneys and Permitted Investments to the

payment of the Series 2013G Water Bonds as herein set forth and the right of the Trustee to collect any fees or expenses due hereunder, and the Trustee shall turn over to the District, as an overpayment of Installment Payments, any surplus in the Series 2013G Revenue Fund or the Project Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Series 2013G Water Bonds at maturity or on redemption, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Series 2013G Water Bonds, and after such payment, this Trust Agreement shall become void.

If moneys or Permitted Investments are deposited with and held by the Trustee as hereinabove provided, the Trustee shall within thirty (30) days after such moneys or Permitted Investments shall have been deposited with it, mail a notice, first class postage redeemed, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to Section 2.04, setting forth (a) the date fixed for redemption of the Series 2013G Water Bonds, (b) a description of the moneys or Permitted Investments so held by it, and (c) that this Trust Agreement has been released in accordance with the provisions of this Section.

SECTION 10.02. Deposit of Money or Securities with Trustee. Whenever in this Trust Agreement or the Installment Purchase Contract it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Series 2013G Water Bonds, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Trust Agreement and shall be --

(a) lawful money of the United States of America in an amount equal to the principal amount represented by such Series 2013G Water Bonds and all unpaid interest represented thereby to maturity, except that, in the case of Series 2013G Water Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Series 2013G Water Bonds plus accrued interest to such date of redemption plus a redemption premium, if any, on such Series 2013G Water Bonds; or

(b) Federal Securities, the principal of and interest on which when due will provide, in the opinion of an Independent Certified Public Accountant (as such term is defined in the Installment Purchase Contract), delivered to the Trustee, money sufficient to pay the principal of, plus redemption premium, if any, plus all accrued interest to maturity or to the redemption date, as the case may be, on the Series 2013G Water Bonds to be paid or redeemed, as such amounts become due, provided that, in the case of Series 2013G Water Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Trust Agreement and the Installment Purchase Contract or by Written Request of the District) to apply such money to the payment of such principal plus redemption premium, if any, plus interest on such Series 2013G Water Bonds.

SECTION 10.03. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the principal of or the redemption premiums, if any, or interest on any of the Series 2013G Water Bonds which remain unclaimed for two (2) years after the date of deposit of such moneys if deposited with Trustee after the date when the principal of, the redemption premiums, if any, and interest on such Series 2013G Water Bonds have become payable, shall at the Written Request of the District be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the principal of, the redemption premiums, if any, and interest on such Series 2013G Water Bonds; provided, however, that before submitting the Written Request of the District, at its own expense, the District shall cause to be published once a week for two (2) successive weeks in a Qualified Newspaper a notice that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the District.

SECTION 10.04. Defeasance Provisions Relating to the Bond Insurer with Respect to Insured 2013G Water Bonds. Notwithstanding anything to the contrary in this Article X, only (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Bond Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (5) subject to the prior written consent of the Bond Insurer, securities eligible for “AAA” defeasance under then existing criteria of S&P, or any combination thereof, shall be used to effect defeasance of the Insured Series 2013G Water Bonds unless the Bond Insurer otherwise approves.

To accomplish defeasance of any Insured Series 2013G Water Bonds, the District shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer (“Accountant”) verifying the sufficiency of the escrow established to pay the Insured Series 2013G Water Bonds in full or in part on the maturity or redemption date (“Verification”), (ii) an escrow agreement (which shall be acceptable in form and substance to the Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Insured Series 2013G Water Bonds are no longer “Outstanding” under this Trust Agreement and (iv) a certificate of discharge of the Trustee with respect to the Insured Series 2013G Water Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the District, the Trustee and Bond Insurer. The Bond Insurer shall be provided with final drafts of the above referenced documentation not less than five (5) Business Days prior to the funding of the escrow.

Insured Series 2013G Water Bonds shall be deemed “Outstanding” under this Trust Agreement unless and until they are in fact paid and retired or the requirements of this Section 10.04 are met.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. Liability of Authority Limited to Revenues. Notwithstanding anything contained herein, the Authority shall not be required to advance any money derived from any source other than the Revenues as provided herein for the payment of the interest on or principal of or redemption premiums, if any, on the Series 2013G Water Bonds or for the performance of any agreements or covenants herein contained. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

The Series 2013G Water Bonds are special, limited obligations of the Authority and are payable, as to interest thereon, principal thereof and any premiums upon the redemption of any thereof, solely from the Revenues as provided herein, and the Authority is not obligated to pay them except from the Revenues. All the Series 2013G Water Bonds are equally secured by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of and redemption premiums, if any, on the Series 2013G Water Bonds as provided herein. The Series 2013G Water Bonds are not a debt of the Authority or any member of the Authority (including the District), the State of California or any of its political subdivisions, and neither the Authority, any member of the Authority (including the District), said State nor any of its political subdivisions is liable thereon, nor in any event shall the Series 2013G Water Bonds be payable out of any funds or properties other than those of the Authority as provided herein. The Series 2013G Water Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction.

SECTION 11.02. Third Party Beneficiary; Benefits of Trust Agreement. Nothing contained herein, expressed or implied, is intended to give to any person other than the Authority, the District, the Bond Insurer, the Trustee and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term required herein to be observed or performed by or on behalf of the Authority or the District shall be for the sole and exclusive benefit of the Authority, the District, the Bond Insurer, the Trustee and the Owners.

SECTION 11.03. Successor Deemed Included in all References to Predecessor. Whenever either the Authority, the District or the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Authority, the District or the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the Authority, the District or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 11.04. Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be

proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Series 2013G Water Bonds and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of Section 2.04.

Any declaration, request or other instrument in writing of the Owner of any Series 2013G Water Bond shall bind all future Owners of such Series 2013G Water Bond with respect to anything done or suffered to be done by the Authority, the District or the Trustee in good faith and in accordance therewith.

SECTION 11.05. Waiver of Personal Liability. No director, officer or employee of the Authority or the District shall be individually or personally liable for the payment of the principal of, the redemption premiums, if any, or interest on the Series 2013G Water Bonds, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

SECTION 11.06. Acquisition of Series 2013G Water Bonds by District; Destruction of Series 2013G Water Bonds. All Series 2013G Water Bonds acquired by the District, whether by purchase or gift or otherwise shall be surrendered to the Trustee for cancellation. Whenever in this Trust Agreement provision is made for the cancellation by the Trustee of any Series 2013G Water Bonds, the Trustee shall, unless otherwise instructed by a Written Request of the District, in lieu of such cancellation, destroy such Series 2013G Water Bonds and deliver a bond of such destruction to the District if it requests.

SECTION 11.07. Publication for Successive Weeks. Any publication required to be made hereunder for successive weeks in a Qualified Newspaper may be made in each instance upon any Business Day of the first week and need not be made on the same Business Day of any succeeding week or in the same Qualified Newspaper for any subsequent publication, but may be made on different Business Days or in different Qualified Newspapers, as the case may be.

SECTION 11.08. Funds. Any fund required to be established and maintained herein by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with corporate trust industry practice and with due regard for the protection of the security of the Series 2013G Water Bonds and the right of the Owners.

SECTION 11.09. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required herein to be observed or performed by or on the part of the Authority, the District or the Trustee shall be contrary to law, then such agreement or

agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Series 2013G Water Bonds, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law. The Authority and the Trustee hereby declare that they would have executed the Trust Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the execution and delivery of the Series 2013G Water Bonds pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstances may be held to be unconstitutional, unenforceable or invalid.

SECTION 11.10. California Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 11.11. Notices. All written notices to be given hereunder shall be given in person or by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

To the Authority: Modesto Irrigation District Financing Authority
c/o Modesto Irrigation District
1231 Eleventh Street
P.O. Box 4060
Modesto, California 95352
Attention: Treasurer

To the District: Modesto Irrigation District
1231 Eleventh Street
P.O. Box 4060
Modesto, California 95352
Attention: President of the Board of Directors

To the Trustee: Wells Fargo Bank, National Association
333 Market Street, 18th Floor
San Francisco, California 94105
Attention: Corporate Trust Services

To the Bond Insurer: Assured Guaranty Municipal Corp.
31 West 52nd Street
New York, New York 10019
Attention: Managing Director – Surveillance, Re: Policy No. 215749-N

The Authority, the Trustee and the District may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Unless specifically otherwise required by the context of this Trust Agreement, any notices required to be given hereunder to the Trustee, the Authority or the District may be given by any

form of electronic transmission capable of producing a written record. Each such party shall file with the Trustee information appropriate to receiving such form of electronic transmission.

Copies of any notices given hereunder shall be sent to the Bond Insurer at the address specified above and to the City of Modesto at:

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Director of Finance

SECTION 11.12. Provisions Relating to the Municipal Bond Insurance Policy.

The following provisions shall govern notwithstanding anything to the contrary set forth in this Trust Agreement.

(a) The Bond Insurer shall be deemed to be the sole holder of the Insured Series 2013G Water Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Series 2013G Water Bonds are entitled to take pursuant to the Trust Agreement pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

(b) The maturity of Insured Series 2013G Water Bonds shall not be accelerated without the consent of the Bond Insurer and in the event the maturity of the Insured Series 2013G Water Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Municipal Bond Insurance Policy with respect to such Insured Series 2013G Water Bonds shall be fully discharged.

(c) No grace period for a covenant default shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the Bond Insurer.

(d) The Bond Insurer is hereby deemed to be a third party beneficiary to the Trust Agreement.

Any amendment, supplement, modification to, or waiver of, the Trust Agreement or the Installment Purchase Contract that requires the consent of owners of the Insured Series 2013G Water Bonds or adversely affects the rights and interests of the Bond Insurer shall be subject to the prior written consent of the Bond Insurer.

(e) The rights granted to the Bond Insurer under the Trust Agreement and the Installment Purchase Contract to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Municipal Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Insured Series 2013G Water Bonds and such action does not evidence any position of the Bond Insurer, affirmative or negative, as to whether the consent of the holders of

the Insured Series 2013G Water Bonds or any other person is required in addition to the consent of the Bond Insurer.

(f) Amounts paid by the Bond Insurer under the Municipal Bond Insurance Policy shall not be deemed paid for purposes of the Trust Agreement and the Insured Series 2013G Water Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Trust Agreement. The Trust Agreement shall not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

(g) Claims Upon the Municipal Bond Insurance Policy and Payments by and to the Bond Insurer.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date (“Payment Date”) there is not on deposit with the Trustee, after making all transfers and deposits required under the Trust Agreement, moneys sufficient to pay the principal of and interest on the Insured Series 2013G Water Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to its designated agent (if any) (the “Bond Insurer’s Fiscal Agent”) by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Series 2013G Water Bonds due on such Payment Date, the Trustee shall make a claim under the Municipal Bond Insurance Policy and give notice to the Bond Insurer and the Bond Insurer’s Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Series 2013G Water Bonds and the amount required to pay principal of the Insured Series 2013G Water Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer’s Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Municipal Bond Insurance Policy.

The Trustee shall designate any portion of payment of principal on Insured Series 2013G Water Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Series 2013G Water Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Insured Series 2013G Water Bond to the Bond Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Insured Series 2013G Water Bond shall have no effect on the amount of principal or interest payable by the Authority on any Insured Series 2013G Water Bond or the subrogation rights of the Bond Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Insured Series 2013G Water Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Municipal Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Bondholders referred to herein as the “Policy Payments Account” and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Municipal Bond Insurance Policy in trust on behalf of holders of the Insured Series 2013G Water Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to holders of the Insured Series 2013G Water Bonds in the same manner as principal and interest payments are to be made with respect to the Insured Series 2013G Water Bonds under the sections hereof regarding payment of Insured Series 2013G Water Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the Authority agrees to pay to the Bond Insurer (i) a sum equal to the total of all amounts paid by the Bond Insurer under the Municipal Bond Insurance Policy (the “Bond Insurer Advances”); and (ii) interest on such Bond Insurer Advances from the date paid by the Bond Insurer until payment thereof in full, payable to the Bond Insurer at the Late Payment Rate per annum (collectively, the “Bond Insurer Reimbursement Amounts”). “Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Insured Series 2013G Water Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Authority hereby covenants and agrees that the Bond Insurer Reimbursement Amounts are secured by a lien on and pledge of the Revenues and payable from such Revenues on a parity with debt service due on the Insured Series 2013G Water Bonds.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following an Insured Series 2013G Water Bond payment date shall promptly be remitted to the Bond Insurer.

(h) The Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Series 2013G Water Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy. Each obligation of the Authority to the Bond Insurer under the Trust Agreement and the Installment Purchase Contract shall survive discharge or termination of such Trust Agreement and the Installment Purchase Contract.

(i) The Authority shall pay or reimburse the Bond Insurer any and all charges, fees, costs and expenses that the Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Trust Agreement and the Installment Purchase Contract; (ii) the pursuit of any remedies under the Trust Agreement and the Installment Purchase Contract or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the

Trust Agreement or the Installment Purchase Contract whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Trust Agreement or the Installment Purchase Contract or the transactions contemplated thereby, other than costs resulting from the failure of the Bond Insurer to honor its obligations under the Municipal Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Trust Agreement or the Installment Purchase Contract.

(j) After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Authority or rebate only after the payment of past due and current debt service on the Insured Series 2013G Water Bonds and amounts required to restore the Series 2013G Reserve Fund to the Series 2013G Reserve Fund Requirement.

(k) The Bond Insurer shall be entitled to pay principal or interest on the Insured Series 2013G Water Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Municipal Bond Insurance Policy) and any amounts due on the Insured Series 2013G Water Bonds as a result of acceleration of the maturity thereof in accordance with the Trust Agreement, whether or not the Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Municipal Bond Insurance Policy) or a claim upon the Municipal Bond Insurance Policy.

(l) The Bond Insurer shall be provided with the following information by the Authority, the District or Trustee, as the case may be:

(i) Annual audited financial statements within 180 days (or such longer period agreed to by the Bond Insurer) after the end of each of the District's Fiscal Year (together with a certification of the Authority that it is not aware of any Event of Default under the Trust Agreement), and each of the District's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Bond Insurer shall reasonably request from time to time;

(ii) Notice of any draw upon the Series 2013G Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Series 2013G Reserve Fund Requirement and (ii) withdrawals in connection with a refunding of Insured Series 2013G Water Bonds;

(iii) Notice of any Event of Default known to the Trustee, the Authority or the District within five Business Days after knowledge thereof;

(iv) Prior notice of the advance refunding or redemption of any of the Insured Series 2013G Water Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(v) Notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

(vi) Notice of the commencement of any proceeding by or against the Authority or the District commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”);

(vii) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Insured Series 2013G Water Bonds;

(viii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Trust Agreement or the Installment Purchase Contract; and

(ix) All reports, notices and correspondence to be delivered to holders of the Insured Series 2013G Water Bonds under the terms of the Trust Agreement.

(x) All information furnished pursuant to the Continuing Disclosure Agreement shall also be provided to the Bond Insurer by the Trustee as dissemination agent, simultaneously with the furnishing of such information.

(m) The Bond Insurer shall have the right to receive such additional information as it may reasonably request.

(n) The Authority and the District will permit the Bond Insurer to discuss the affairs, finances and accounts of the Authority and the District or any information the Bond Insurer may reasonably request regarding the security for the Insured Series 2013G Water Bonds with appropriate officers of the Authority and the District and will use commercially reasonable efforts to enable the Bond Insurer to have access to the facilities, books and records of the Authority and the District on any business day upon reasonable prior notice.

(o) The Trustee shall notify the Bond Insurer of any failure of the Authority or the District to provide notices, certificates and other information under the transaction documents.

(p) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Trust Agreement would adversely affect the security for the Insured Series 2013G Water Bonds or the rights of the holders of the Insured Series 2013G Water Bonds, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Municipal Bond Insurance Policy.

(q) No contract shall be entered into or any action taken by which the rights of the Bond Insurer or security for or sources of payment of the Insured Series 2013G Water Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Bond Insurer.

(r) There shall be delivered an opinion of Bond Counsel addressed to the Bond Insurer (or a reliance letter relating thereto), or a certificate of discharge of the trustee for

the Prior Water Bonds, to the effect that, upon the making of the required deposit to the escrow, the legal defeasance of the Prior Water Bonds shall have occurred.

(s) The Trustee shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of subsection 4.02(b)(i) of the Installment Purchase Contract and to provide notice to the Bond Insurer in accordance with the terms of the Reserve Policy at least five (5) Business Days prior to each date upon which interest or principal is due on the Series 2013G Water Bonds.

SECTION 11.13. [Reserved].

SECTION 11.14. Notices to Bond Insurer. The notice address of the Bond Insurer is: Assured Guaranty Municipal Corp., 31 West 52nd Street, New York, New York 10019, Attention: Managing Director – Surveillance, Re: Policy No. 215749-N, Telephone: (212) 826 0100; Telecopier: (212) 339 3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate “URGENT MATERIAL ENCLOSED.”

SECTION 11.16. Effective Date. The Trust Agreement shall become effective upon its execution and delivery.

SECTION 11.17. Execution in Several Counterparts. This Trust Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Modesto Irrigation District Financing Authority has caused this Trust Agreement to be signed in its name and attested by its duly authorized officers, respectively, and the Modesto Irrigation District has caused this Trust Agreement to be signed in its name and attested by its duly authorized officers, respectively, and Wells Fargo Bank, National Association, in token of its acceptance of the trust created hereunder, has caused this Trust Agreement to be signed in its name by its duly authorized representative, all as of the day and year first above written.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By 
Interim Treasurer

Attest:


Secretary

MODESTO IRRIGATION DISTRICT

By 
Interim General Manager

Attest:


Secretary of the Board of
Directors

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By _____
Authorized Representative

IN WITNESS WHEREOF, the Modesto Irrigation District Financing Authority has caused this Trust Agreement to be signed in its name and attested by its duly authorized officers, respectively, and the Modesto Irrigation District has caused this Trust Agreement to be signed in its name and attested by its duly authorized officers, respectively, and Wells Fargo Bank, National Association, in token of its acceptance of the trust created hereunder, has caused this Trust Agreement to be signed in its name by its duly authorized representative, all as of the day and year first above written.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By _____
Interim Treasurer

Attest:

Secretary

MODESTO IRRIGATION DISTRICT

By _____
Interim General Manager

Attest:

Secretary of the Board of
Directors

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By  _____
Authorized Representative

EXHIBIT A

FORM OF SERIES 2013G WATER BONDS

No. _____

\$ _____

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
_____ %	September 1, ____	August 14, 2013	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on

March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G" (the "Bonds") in the aggregate principal amount of forty-three million two hundred seventy thousand dollars (\$43,270,000) and is issued under and pursuant to the provisions of the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of a Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), among the Authority, the District and the Trustee. Copies of the Trust Agreement are on file at the corporate trust office of the Trustee in San Francisco, California. Reference is hereby made to the Trust Agreement and to any and all amendments thereof and supplements thereto for a description of the covenants and pledges securing the Bonds, for the nature, extent and manner of enforcement of such covenants and pledges, for the rights and remedies of the Trustee and the registered owners of the Bonds with respect thereto and for other conditions and terms upon which the Bonds are issued. To the extent and in the manner permitted by the Trust Agreement, the provisions of the Trust Agreement may be amended or supplemented by the parties thereto, but no such amendment or supplement shall (1) extend the stated payment date of this Bond, or reduce the rate of interest hereon, or extend the time of payment of such interest, or reduce the amount of principal hereof, or reduce any redemption premium hereon, without the prior written consent of the registered owner hereof, or (2) reduce the percentage of registered owners whose consent is required for the execution of any amendment of or supplement to the Trust Agreement, or (3) modify any rights or obligations of the Trustee without its prior written consent thereto.

The Bonds are issued to provide funds to refinance a portion of the costs of acquisition and construction of a surface water treatment plant and distribution facilities of the District (the "Project"). The Bonds are special, limited obligations of the Authority and are payable, as to interest thereon and principal thereof, solely from moneys held in certain funds and accounts pursuant to the Trust Agreement and the revenues derived from Installment Payments and other payments made by the District pursuant to the Installment Purchase Contract, dated as of November 1, 1992, and amended and restated as of July 1, 1995 and further amended and restated as of February 1, 1998 and further amended and restated as of August 1, 2013 (the "Installment Purchase Contract"), by and between the District and the Authority (as more fully defined in the Trust Agreement, the "Revenues"), and the Authority is not obligated to pay the principal of or interest on the Bonds except from the Revenues. All Bonds are equally and ratably secured in accordance with the terms and conditions of the Trust Agreement by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the principal of and interest on the Bonds as provided in the Trust Agreement. The obligation of the District to make the Installment Payments is a special obligation of the District payable solely from certain payments made by the City of Modesto to the District pursuant to the Treatment and Delivery Agreement (as that term is defined in the Trust Agreement) and the other funds provided for in the Installment Purchase Contract and the Trust Agreement, and does not constitute a debt of the District or of the Authority or any of its

members or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. No director, officer or employee of the Authority or the District shall be individually or personally liable for the payment of the principal of, the redemption premiums, if any, or interest on the Bonds, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

The Bonds are authorized to be issued, executed and delivered in the form of fully registered Bonds in Authorized Denominations (as defined in the Trust Agreement). Subject to the conditions and terms and upon payment of the charges, if any, provided in the Trust Agreement, any Bond may, in accordance with the terms of the Trust Agreement, be transferred, upon the books of the Trustee required to be kept pursuant to the provisions of the Trust Agreement, by the person in whose name it is registered, in person or by the attorney of such person duly authorized in writing, upon surrender of such Bond for cancellation, accompanied by a duly executed written instrument of transfer in a form approved by the Trustee. No transfers of Bonds shall be required to be made after the close of business on the fifteenth day of the calendar month immediately preceding the interest payment date and prior to the interest payment date or during the period established by the Trustee for selection of Bonds for redemption. No registration of transfer shall be made of any Bond selected for redemption.

The Bonds are subject to redemption prior to their respective stated maturity dates under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and the Installment Purchase Contract. The Bonds shall be selected for redemption in accordance with the Trust Agreement. Notices of redemption shall be mailed, first class postage prepaid, not less than 30 days nor more than 60 days prior to the redemption date to the registered owners of any Bonds designated for redemption at their addresses appearing on the books required to be kept by the Trustee.

The registered owner of this Bond shall have no right to enforce the provisions of the Trust Agreement or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under and as defined in the Trust Agreement, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Trust Agreement. If an Event of Default occurs and is continuing, the principal of all Bonds then outstanding under the Trust Agreement may become due and payable upon the conditions and in the manner and with the effect provided in the Trust Agreement.

The Authority and any agent of the Authority and the Trustee may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond is overdue, and the Authority, the Trustee and any such agent shall not be affected by any notice to the contrary.

The Trust Agreement prescribes the manner in which it may be discharged and after which the Bonds shall no longer be secured by or entitled to the benefits of the Trust Agreement, except for the purposes of registration and exchange of Bonds and of payment of the principal of, premium, if any, and interest on the Bonds as the same becomes due and payable, including a provision that under certain circumstances the Bonds shall be deemed to be paid if certain securities, maturing as to principal and interest in such amounts and at such times as to

insure the availability of sufficient moneys to pay the principal of, premium, if any, and interest on the Bonds and all required fees, deposited with the Trustee.

THE AUTHORITY HEREBY CERTIFIES that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement, to have been performed, to have happened and to exist precedent to and in the connection with the issuance of this Bond, have been performed, have happened and do exist in regular and due time, form and manner as required by law, and that the amount of this Bond, together with all other bonds issued under the Trust Agreement, is not in excess of the amount of Bonds authorized to be issued thereunder.

IN WITNESS WHEREOF, the Modesto Irrigation District Financing Authority has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the Interim Treasurer of the Authority and countersigned by the facsimile signature of the Secretary of the Authority, and has caused this Bond to be dated as of the issue date specified above.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By: _____
Interim Treasurer

Countersigned:

Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Trust Agreement which has been authenticated and registered on _____.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto _____ the within Bond and do(es) hereby irrevocably constitute and appoint _____ attorney to transfer the same on the bond register of the Trustee, with full power of substitution in the premises.

Dated: _____

SIGNATURE GUARANTEED BY:

NOTE: The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever, and the signature(s) must be guaranteed by an eligible guarantor institution.

Social Security Number, Taxpayer Identification Number or other identifying number of Assignee: _____

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the District or the Trustee for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof Cede & Co., has an interest herein.

[STATEMENT OF INSURANCE TO APPEAR ON
INSURED SERIES 2013G WATER BONDS]

Assured Guaranty Municipal Corp. (“AGM”), New York, New York, has delivered its municipal bond insurance policy (the “Policy”) with respect to the scheduled payments due of principal of and interest on the Bonds maturing on September 1 of the years 2019 through 2022, inclusive (the “Insured Bonds”) to Wells Fargo Bank, National Association, San Francisco, California, or its successor, as paying agent for the Insured Bonds (the “Paying Agent”). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from AGM or the Paying Agent. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Bond acknowledges and consents to the subrogation rights of AGM as more fully set forth in the Policy.

EXHIBIT B

DESCRIPTION OF THE PROJECT

The Project consists of the water treatment plant, treated water transmission pipelines, terminal reservoir/pumping station and treated water distribution pipelines, located within the District's boundaries and providing approximately 30 million gallons per day of treated surface water to its customers within the District.

EXHIBIT C

FORM OF REQUISITION

REQUISITION NO.

The undersigned, a duly authorized officer of the Modesto Irrigation District, hereby requests Wells Fargo Bank, National Association, as trustee (the "Trustee") under and pursuant to that certain trust agreement (the "Trust Agreement"), dated as of August 1, 2013, by and between the Modesto Irrigation District Financing Authority (the "Authority") and the Trustee to pay each of the persons identified on the attached Schedule I the amounts set forth beside their names from moneys deposited in the Project Fund established and maintained pursuant to the Trust Agreement.

Each obligation identified herein has been properly incurred and is a proper charge against the Project Fund. None of the items so identified has been previously reimbursed from the Project Fund. Each item for which payment is requested was or is necessary in connection with the acquisition, construction, installation or financing of the Project (as such term is defined in the Trust Agreement).

There has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such requisition which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: _____, 20__

MODESTO IRRIGATION DISTRICT

By _____
Authorized District Representative

Attachment: Schedule I

INSTALLMENT PURCHASE
CONTRACT

by and between

MODESTO IRRIGATION DISTRICT

and

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY

Dated as of November 1, 1992
and amended and restated as of July 1, 1995
and further amended and
restated as of February 1, 1998
and further amended and
restated as of August 1, 2013

RELATING TO

\$43,270,000

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS,
SERIES 2013G

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INSTALLMENT PURCHASE CONTRACT

This INSTALLMENT PURCHASE CONTRACT, dated as of November 1, 1992 and amended and restated as of July 1, 1995, and further amended and restated as of February 1, 1998, and further amended and restated as of August 1, 2013 by and between MODESTO IRRIGATION DISTRICT, an irrigation district duly organized and existing under and by virtue of the laws of the State of California (the "District"), and MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California ("Authority")

W I T N E S S E T H:

WHEREAS, the District is authorized by law, including Division 11 of the California Water Code, as amended, to acquire interests in and construct facilities for the treatment and delivery of water;

WHEREAS, the Authority is a joint exercise of powers authority duly organized and existing under and pursuant to a Joint Exercise of Powers Agreement, dated as of July 1, 1989 (the "Agreement"), by and between Modesto Irrigation District (the "District") and the City of Redding and pursuant to the Joint Exercise of Powers Act (Sections 6500 et seq. of the California Government Code) (the "Act");

WHEREAS, the Authority is authorized under the provisions of the Act and the Agreement to enter into contracts to pay the costs and expenses of acquiring, designing, constructing, and installing facilities for the treatment and delivery of water;

WHEREAS, the District entered into a contract with the Authority for the acquisition, design, construction and installation of the Domestic Water System, including the initial facilities as described in Exhibit A hereto (such facilities, the "Domestic Water Project");

WHEREAS, the Authority assisted the District by financing the acquisition, design, construction, improvement and installation of such initial facilities comprising the Domestic Water Project for the District through the issuance of its Domestic Water Project Revenue Bonds, Series 1992A in an original aggregate principal amount of \$67,320,000 (the "Series 1992A Water Bonds") and Series 1995C, in an original aggregate principal amount of \$23,380,000 (the "Series 1995C Water Bonds");

WHEREAS, the Authority assisted the District by refinancing the acquisition, design, construction, improvement and installation of the Domestic Water Project for the District through the issuance of its Domestic Water Project Revenue Bonds, including Series 1998D Refunding Water Bonds in an original aggregate principal amount of \$94,715,000 (the "Prior Water Bonds"), which were used to refund the Series 1992A Water Bonds and the Series 1995C Water Bonds;

WHEREAS, the District has determined that the acquisition, design, construction, improvement and installation of the Domestic Water Project is necessary and proper for District uses and purposes under the terms of applicable law and for the common benefit of the District

as a whole, including but not limited to the beneficial use of the District's water resources in a manner which promotes the assurance of water and electric service to the District's residents and customers;

WHEREAS, the Authority has determined to issue its Domestic Water Project Refunding Revenue Bonds, Series 2013G in an aggregate principal amount of forty-three million two hundred seventy thousand dollars (\$43,270,000) (the "Series 2013G Water Bonds") in order to refund and defease the unpaid Prior Water Bonds in accordance with their terms;

WHEREAS, the District and the Authority have duly authorized the execution of this Installment Purchase Contract, as amended and restated herein, to provide for the purchase of the Domestic Water Project by the District and to provide for a purchase price that will be applied to refund and defease the Prior Water Bonds;

WHEREAS, the District and the Authority desire to amend and restate the terms and conditions of this Installment Purchase Contract and to modify the terms of the purchase of the Domestic Water Project;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Contract do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Contract;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

SECTION 1.01 [Definitions](#). Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein:

Accountant's Report

The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Authority

The term “Authority” means the Modesto Irrigation District Financing Authority, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California.

Bond Counsel

The term “Bond Counsel” shall have the meaning ascribed to such term in the Trust Agreement.

Bond Insurer

The term “Bond Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

City

The term "City" means the City of Modesto.

Code

The term “Code” means the Internal Revenue Code of 1986.

Continuing Disclosure Agreement

The term “Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Agreement between the City of Modesto and the Trustee dated the date of issuance and delivery of the Series 2013G Water Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Depository

The term “Depository” means Wells Fargo Bank, National Association, in its capacity as Depository, and its successors and assigns.

District

The term “District” means Modesto Irrigation District, an irrigation district duly organized and existing under and by virtue of the laws of the State of California.

Domestic Water Bonds

The term “Domestic Water Bonds” means the outstanding Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F and the Series 2013G Water Bonds.

Domestic Water Contract

The term “Domestic Water Contract” means the Installment Purchase Contract, the Series F Installment Purchase Contract, Domestic Water Swap Contracts, and all contracts of the District authorized and executed by the District under and pursuant to the Law, the Domestic Water Installment Payments under which are on a parity with the Series G Domestic Water Installment Payments and are secured by a pledge of and lien on the Treatment and Delivery Revenues.

Domestic Water Installment Payment Date

The term “Domestic Water Installment Payment Date” means March 1, 2014 and thereafter on March 1 and September 1 of each year.

Domestic Water Installment Payments; Domestic Water Swap Installment Payments; Series G Domestic Water Installment Payments

The term “Domestic Water Installment Payments” means: (1) in connection with the financing of the Domestic Water System, the installment payments of interest and principal scheduled to be paid by the District, and (2) Domestic Water Swap Installment Payments, under and pursuant to the Domestic Water Contracts.

The term “Domestic Water Swap Installment Payments” means regularly scheduled payments and termination payments, if any, made to third-party counterparties pursuant to interest rate swap agreements, including but not limited to, the Series 2007F Swap Contract Payments.

The term “Series G Domestic Water Installment Payments” means the Series G Domestic Water Installment Payments scheduled to be paid pursuant to Section 3.02.

Domestic Water Project

The term “Domestic Water Project” means the acquisition, design, construction and installation of certain initial facilities, including diversion facilities, water treatment facilities, pipelines, pumps, storage facilities and other improvements, comprising the original project component of the Domestic Water System as described in Exhibit A hereto.

Domestic Water Project Revenue Fund

The term “Domestic Water Project Revenue Fund” means the Modesto Irrigation District Domestic Water Project Revenue Fund established in Section 4.02.

Domestic Water System

The term “Domestic Water System” means all facilities related to the treatment, transmission, storage, distribution and pumping and all other properties, structures or works for the treatment, transmission, storage, distribution and pumping of domestic water and all rights to obtain, control or receive domestic water services heretofore or hereafter acquired or constructed

by the District together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

Domestic Water Service

The term “Domestic Water Service” means the treated water furnished, made available or sold by the Domestic Water System.

Domestic Water Swap Contracts

The term “Domestic Water Swap Contracts” means all interest rate swap contracts entered into by the Authority and payable from Domestic Water Swap Installment Payments.

Engineer's Report

The term “Engineer's Report” means a report signed by an Independent Engineer.

Event of Default

The term “Event of Default” means an event described in Section 7.01.

Fiscal Year

The term “Fiscal Year” means the twelve-month period terminating on December 31 of each year, or any other annual accounting period hereafter selected and designated by the District as its Fiscal Year in accordance with applicable law.

General Fund

The term “General Fund” means the fund by that name existing in the treasury of the District established by the Law.

Independent Certified Public Accountant

The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Engineer

The term “Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to water systems, appointed and paid by the District, and who or each of whom --

- (1) is in fact independent and not under the domination of the District;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and

(3) is not connected with the District as a director, officer or employee of the District, but may be regularly retained to make reports to the District.

Installment Purchase Contract

The term “Installment Purchase Contract” means this Installment Purchase Contract by and between the District and Authority, dated as of November 1, 1992 and amended and restated as of July 1, 1995, and further amended and restated as of February 1, 1998, and further amended and restated as of August 1, 2013, and as it may from time to time be further amended or supplemented in accordance herewith.

Interest Payment Date

The term “Interest Payment Date” shall have the meaning ascribed to such term in the Trust Agreement.

Law

The term “Law” means the Irrigation District Law of the State of California (being Division 11 of the Water Code of the State of California, as amended) and all laws amendatory thereof or supplemental thereto.

Maintenance and Operation Costs of the Domestic Water System

The term “Maintenance and Operation Costs of the Domestic Water System” shall mean the costs set forth in Sections 14.2, 14.3, 14.4, 14.5, 14.6 and 14.7 of the Treatment and Delivery Agreement and similar costs related to the Domestic Water System.

Maximum Annual Series G Domestic Water Installment Payments

The term “Maximum Annual Series G Domestic Water Installment Payments” means the greatest annual Series G Domestic Water Installment Payment payable in any year ending on September 1 during the period beginning with the then current year and ending with the year ending on September 1, 2022.

Moody's

The term “Moody's” shall have the meaning ascribed to such term in the Trust Agreement.

Net Proceeds

The term “Net Proceeds” means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Participating Underwriter

The term “Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

Permitted Investments

The term “Permitted Investments” means any of the following which at the time are legal investments under the laws of the State of California for moneys held hereunder and then proposed to be invested therein:

A. Direct obligations of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

1. United States Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (“FHA”)
5. General Services Administration
Participation certificates
6. Government National Mortgage Association (“GNMA” or “Ginnie Mae”)
GNMA – guaranteed mortgage-backed bonds
GNMA – guaranteed pass-through obligations
7. United States Maritime Administration
Guaranteed Title XI financing
8. United States Department of Housing and Urban Development (“HUD”)

Project Notes

Local Authority Bonds

New Communities Debentures - United States government guaranteed debentures

U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”)
Participation Certificates
Senior debt obligations
3. Federal National Mortgage Association (“FNMA” or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (“SLMA” or “Sallie Mae”)
Senior debt obligations
5. Resolution Funding Corporation (“REFCORP”) obligations
6. Farm Credit System
Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m,” or “AA m” and if rated by Moody’s, rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks (including affiliates of the Trustee), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including Guaranteed Investment Contracts, Forward Purchase Agreements and Reserve Fund Put Agreements.

H. Commercial paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1+” by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime – 1” or “A3” or better by Moody’s and “A-1+” or “A” or better by S&P.

K. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

a. Repos must be between the municipal entity and a dealer bank or securities firm

(1) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor’s Ratings Group and Moody’s, or

(2) Banks rated “A” or above by Standard & Poor’s Ratings Group and Moody’s Investor Services.

b. The written repo contract must include the following:

(1) Securities which are acceptable for transfer are:

(a) Direct U.S. governments

(b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

(2) The term of the repo may be up to 30 days

(3) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is

supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) The trustee has a perfected first priority security interest in the collateral.

(5) Valuation of Collateral

(a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(b) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. Legal opinion which must be delivered to the municipal entity:

Repo meets guidelines under state law for legal investment of public funds.

L. Any state administered pool investment fund in which the District is statutorily permitted or required to invest, including, but not limited to participation in the Local Agency Investment Fund (LAIF).

Prior Water Bonds

The term “Prior Water Bonds” means the unpaid Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D.

Project Fund

The term “Project Fund” means the Modesto Irrigation District Domestic Water Project Fund, Series 2013G established pursuant to Section 3.03 of the Trust Agreement.

Purchase Price

The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Authority under the terms hereof as provided in Section 3.01.

Rebate Fund

The term “Rebate Fund” means the Rebate Fund established in Section 5.05.

Rebate Instructions

The term “Rebate Instructions” means those calculations and directions required to be delivered to the Trustee by the District pursuant to the Tax Certificate.

Rebate Requirement

The term “Rebate Requirement” means the Rebate Requirement defined in the Tax Certificate.

Reserve Policy

The term “Reserve Policy” means the municipal bond debt service reserve insurance policy issued by the Bond Insurer guaranteeing certain payments into the Series 2013G Reserve Fund as provided therein and subject to the limitations set forth therein.

S&P

The term “S&P” shall have the meaning ascribed to such term in the Trust Agreement.

Series 2007F Swap Contract

The term “Series 2007F Swap Contract” means, collectively, the ISDA Master Agreement, two Confirmations, the Credit Support Annex and the Schedule, each between the Authority and the Series 2007F Swap Counterparty, and dated June 5, 2007, as originally executed and as they may from time to time be amended or supplemented in accordance with their terms.

Series 2007F Swap Contract Payments

The term “Series 2007F Swap Contract Payments” means regularly scheduled payments and termination payments, if any, due to the Series 2007F Swap Counterparty, under the Series 2007F Swap Contract.

Series 2007F Swap Counterparty

The term “Series 2007F Swap Counterparty” means JPMorgan Chase Bank, N.A., as assignee of Bear Stearns Capital Markets, and any successors and assigns.

Series F Installment Purchase Contract

The term “Installment Purchase Contract” means the Installment Purchase Contract by and between the District and Authority, dated as of June 1, 2007, and as it may from time to time be further amended or supplemented in accordance therewith.

Series 2013G Reserve Fund

The term “Series 2013G Reserve Fund” means the fund by that name referenced in Section 4.02.

Series 2013G Reserve Fund Requirement

The term “Series 2013G Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the Maximum Annual Series G Domestic Water Installment Payments.

Series 2013G Revenue Fund

The term “Series 2013G Revenue Fund” means the Series 2013G Revenue Fund defined in the Trust Agreement.

Series 2013G Water Bonds

The term “Series 2013G Water Bonds” means the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, issued pursuant to the Trust Agreement.

Tax Certificate

The term “Tax Certificate” means the Tax Certificate and Agreement, if any, delivered by the Authority and the District at the time of the issuance and delivery of the Series 2013G Water Bonds, as the same may be amended or supplemented by its terms.

Treatment and Delivery Agreement

The term “Treatment and Delivery Agreement” means the Amended and Restated Treatment and Delivery Agreement, executed and delivered during 2005 by the District and the City of Modesto, as amended by the Financing Amendments to Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007, by and between the District and the City of Modesto, as it may be further amended from time to time in accordance with its terms.

Treatment and Delivery Revenues

The term “Treatment and Delivery Revenues” means the Debt Service portion of the total sum to be paid by the City of Modesto as set forth in the Treatment and Delivery Agreement.

Trust Agreement

The term “Trust Agreement” means the Trust Agreement, dated as of August 1, 2013, by and among the Trustee, the District and the Authority, pursuant to which the Authority has issued its Series 2013G Water Bonds.

Trustee

The term “Trustee” means Wells Fargo Bank, National Association, acting in its capacity as Trustee under and pursuant to the Trust Agreement, and its successors and assigns.

ARTICLE II

ACQUISITION OF THE DOMESTIC WATER PROJECT

SECTION 2.01 Acquisition of the Domestic Water Project. The District hereby transfers the property, rights and interests in the Domestic Water Project to the Authority for the purpose of acquiring, designing, constructing, improving and installing the Domestic Water Project and agrees to purchase the Domestic Water Project from the Authority at the Purchase Price set forth in Section 3.01. The Authority caused the Domestic Water Project to be acquired, designed, constructed, improved and installed by the District as its agent. The District entered into contracts and, as agent for the Authority, provided for the complete acquisition, design, construction, improvement and installation of the Domestic Water Project. The District and the Authority agree that the District caused the acquisition, design, construction, improvement and installation of the Domestic Water Project to be diligently performed and that the District used its best efforts to cause the acquisition, design, construction, improvement and installation of the Domestic Water Project to be completed. It is hereby expressly understood and agreed that the Authority shall be under no liability of any kind or character whatsoever for the payment of any cost of the Domestic Water Project and that all such costs and expenses have been or shall be paid by the District, regardless of whether the funds deposited in the Project Fund are sufficient to cover all such costs and expenses. Upon payment of the Purchase Price by the District in full as provided herein and the application of such Purchase Price to the refunding and defeasance of the Prior Water Bonds, the transfer of the property, rights and interests described in Exhibit A to the District from the Authority shall be ratified and confirmed in all respects without any further action by the District or the Authority.

ARTICLE III

DOMESTIC WATER INSTALLMENT PAYMENTS

SECTION 3.01 Purchase Price.

(a) The Purchase Price to be paid by the District hereunder to the Authority is the sum of the aggregate principal amount of the District's obligations hereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date hereof over the term hereof, subject to prepayment as provided in Article VI.

(b) The principal amount of the Series G Domestic Water Installment Payments to be made by the District hereunder is forty-three million two hundred seventy thousand dollars (\$43,270,000).

(c) The interest to accrue on the unpaid balance of such principal amounts of Domestic Water Installment Payments is as specified in Section 3.02 and shall be paid by the District as and constitutes interest paid on the principal amount of the District's obligations hereunder.

SECTION 3.02 Series G Domestic Water Installment Payments. The District shall, subject to any rights of prepayment provided in Article VI, pay the Trustee, on behalf of the

Authority, the Purchase Price in Series G Domestic Water Installment Payments on each Domestic Water Installment Payment Date for the payment of principal of (whether at maturity or upon redemption or acceleration), redemption premium, if any, and interest on the Series 2013G Water Bonds, until the principal of, redemption premium, if any, and interest on the Series 2013G Water Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Trust Agreement, in immediately available funds, for deposit in the Series 2013G Revenue Fund established pursuant to the Trust Agreement as follows:

<u>Domestic Water Installment Payment Dates</u>	<u>Amount Attributable to Principal</u>	<u>Amount Attributable to Interest</u>	<u>Total</u>
3/1/2014		\$ 1,118,741.11	
9/1/2014	\$ 3,970,000	1,022,200.00	\$ 6,110,941.11
3/1/2015		982,500.00	
9/1/2015	4,110,000	982,500.00	6,075,000.00
3/1/2016		879,750.00	
9/1/2016	4,320,000	879,750.00	6,079,500.00
3/1/2017		771,750.00	
9/1/2017	4,535,000	771,750.00	6,078,500.00
3/1/2018		658,375.00	
9/1/2018	4,760,000	658,375.00	6,076,750.00
3/1/2019		539,375.00	
9/1/2019	5,005,000	539,375.00	6,083,750.00
3/1/2020		414,250.00	
9/1/2020	5,260,000	414,250.00	6,088,500.00
3/1/2021		282,750.00	
9/1/2021	5,515,000	282,750.00	6,080,500.00
3/1/2022		144,875.00	
9/1/2022	5,795,000	144,875.00	6,084,750.00
	<u>\$43,270,000</u>	<u>\$11,488,191.11</u>	<u>\$54,758,191.11</u>

Each Domestic Water Installment Payment shall be payable to the Trustee on behalf of the Authority on or before the fifteenth day of the month before its due date in lawful money of the United States of America; however, the Trustee shall not be under any obligation to acknowledge receipt of such funds or to demand payment thereof until each Domestic Water Installment Payment Date. In the event the District fails to make any of the payments required to

be made by it under this section, such payment shall continue as an obligation of the District until such amount shall have been fully paid and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Domestic Water Installment Payments if paid in accordance with their terms.

SECTION 3.03 [Obligation to Pay](#). The obligation of the District to make the Domestic Water Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article VIII), the District will not discontinue or suspend any Domestic Water Installment Payments required to be made by it under this section when due, whether or not the Domestic Water Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement, including but not limited to the Treatment and Delivery Agreement, for any cause whatsoever; provided, however that in accordance with Section 9.01 the District's obligation to so make the Domestic Water Installment Payments is payable solely from Treatment and Delivery Revenues.

SECTION 3.04 [Authority Option to Repay](#). The Authority may, at any time, repay to the District an amount equal to that amount required to be deposited by the District to discharge its obligations hereunder pursuant to Article VIII, which amount, if so paid, the District shall so deposit in the time, form and manner specified in Article VIII.

ARTICLE IV

REVENUES

SECTION 4.01 [Pledge of Treatment and Delivery Revenues](#). All Treatment and Delivery Revenues are hereby irrevocably pledged to the payment of the Domestic Water Installment Payments as provided herein and the Treatment and Delivery Revenues shall not be used for any other purpose while any of the Domestic Water Installment Payments remain unpaid; provided, however, that out of the Treatment and Delivery Revenues there may be apportioned such sums for such purposes as are expressly permitted by this Article. This pledge shall constitute a first lien on the Treatment and Delivery Revenues for the payment of the Domestic Water Installment Payments and all other Domestic Water Contracts and Domestic Water Bonds in accordance with the terms hereof; provided, however, that the foregoing pledge shall secure any portion of Domestic Water Swap Installment Payments that constitute termination payments under a Domestic Water Swap Contract on a second lien subordinate basis, and such security for such termination payments shall be junior to the pledge of Treatment and Delivery Revenues securing other Domestic Water Installment Payments.

SECTION 4.02 [Allocation of Treatment and Delivery Revenues](#). In order to carry out and effectuate the pledge and lien set forth in Section 4.01, all Treatment and Delivery Revenues shall be deposited when and as available or received in the Modesto Irrigation District Domestic Water Project Revenue Fund, which fund is hereby established (the "Domestic Water Project Revenue Fund"), and which the District agrees and covenants to establish and maintain so long as any Domestic Water Installment Payments remain unpaid, and all moneys in the Domestic

Water Project Revenue Fund shall be so held in trust and applied and used solely as provided herein. All moneys in the Domestic Water Project Revenue Fund shall be set aside by the District at the following times in the following respective special funds (each of which is established hereunder and each of which is held by the District and each of which the District hereby agrees and covenants to maintain so long as any Domestic Water Installment Payments remain unpaid) in the following order of priority:

- (i) Installment Payment Fund, including the Series G Domestic Water Installment Payment Account within such fund (to be held by the District); and
- (ii) Series 2013G Reserve Fund (to be held by the Depository).

All moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this section.

(a) Installment Payment Fund. On or before the last day of each month, the District shall, from the moneys in the Domestic Water Project Revenue Fund pay, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, for deposit in the Series G Domestic Water Installment Payment Account within the Installment Payment Fund, (i) the amount of one-sixth (1/6) of the aggregate amount of interest becoming due on the Series G Domestic Water Installment Payments during the next succeeding six months; and (ii) for deposit into such fund or account as may be provided therefor, in the case of Domestic Water Bonds or Domestic Water Installment Payments other than the Series G Domestic Water Installment Payments, a sum equal to the amount of one-sixth (1/6) of the aggregate amount of interest becoming due on such Domestic Water Contracts and Domestic Water Bonds during the next succeeding six months, plus (iii) one-twelfth (1/12) of the aggregate amount of principal becoming due (due to maturity, mandatory sinking fund payment or mandatory prepayment or otherwise) on the Series G Domestic Water Installment Payments, Domestic Water Contracts and Domestic Water Bonds during the next succeeding twelve months, but excluding from such amounts of principal any series or issue of such Domestic Water Bonds or Domestic Water Contracts having twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year if such series or issue is secured by the proceeds of a letter of credit, revolving credit agreement or similar credit arrangement; provided, that so long as the payments to be made by the Series 2007F Counterparty pursuant to the Series 2007F Swap Contract are being made on a full and timely basis, interest then accruing on the unpaid balance of the principal amount of the Series F Domestic Water Installment Payments shall be assumed to the fixed rate of interest payable by the Authority under the Series 2007F Swap Contract.

No deposit need be made in the Series G Domestic Water Installment Payment Account if the amount available and contained therein is at least equal to the amount of interest becoming due hereunder on the next succeeding Domestic Water Installment Payment Date (computed for purposes of this paragraph in the manner specified in the preceding paragraph), plus the amount of principal becoming due hereunder on the next succeeding Domestic Water Installment Payment Date for each such series.

All moneys in the Series G Domestic Water Installment Payment Account shall be withdrawn by the District solely for the purpose of paying the Series G Domestic Water Installment Payments to the Authority as they become due and payable in accordance with Section 3.02 hereof; provided, however, that such amounts as the District determines in the Tax Certificate to be necessary to comply with Section 5.05 hereof may be withdrawn by the District and transferred and applied pursuant to Section 5.05.

On the last day of each month, all remaining moneys in the Domestic Water Project Revenue Fund shall be applied to pay any amounts due and owing to the Bond Insurer under the Municipal Bond Insurance Policy or the Reserve Policy.

(b) Series 2013G Reserve Fund. The Authority, for the benefit of the District, shall cause to be deposited with the Depository into the Series 2013G Reserve Fund the Reserve Policy in a face amount, to be calculated by the District and filed with the Trustee, equal to the Series 2013G Reserve Fund Requirement. On or before the last day of each month, the District shall, from the remaining moneys in the Domestic Water Project Revenue Fund, thereafter transfer, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, to the Depository for deposit in the Series 2013G Reserve Fund in the case of the Series G Domestic Water Installment Payments and deposit into such reserve fund or account as may be provided therefor, in the case of Domestic Water Bonds or Domestic Water Installment Payments other than the Series G Domestic Water Installment Payments, that sum, if any, equal to one-twelfth (1/12) of the amount necessary to restore the Series 2013G Reserve Fund to an amount equal to the Series 2013G Reserve Fund Requirement or such other reserve fund or account to an amount equal to the amount required to be maintained therein on the next succeeding September 1 or to pay Policy Costs pursuant to subsection (b)(i) below; provided, however, the District may substitute or otherwise provide for the Series 2013G Reserve Fund or such other fund or account by a policy of insurance or surety bond issued by a municipal bond insurance company, the claims paying ability of which is rated at the time of deposit thereof into the Series 2013G Reserve Fund not lower than the then rating on the Series 2013G Water Bonds by any of Moody's, S&P or Fitch, or by letter of credit or other credit facility issued by a bank or other financial institution the obligations of which are rated at the time of deposit thereof into the Series 2013G Reserve Fund not lower than the then rating on the Series 2013G Water Bonds by any of Moody's, S&P or Fitch, in each case, if such rating agency is then rating obligations of the District.

No transfer need be made in the Series 2013G Reserve Fund if the amount available and contained therein is at least equal to the Series 2013G Reserve Fund Requirement.

If at any time the amount available and contained in the Series 2013G Reserve Fund exceeds the Series 2013G Reserve Fund Requirement and if the District is not then in default hereunder, the Depository shall withdraw the amount of such excess from the Series 2013G Reserve Fund and shall deposit such amount in the Series 2013G Revenue Fund, and for this determination the Depository shall make a valuation of the Series 2013G Reserve Fund on or before September 1 in each year. Except for such withdrawals, all moneys in the Series 2013G Reserve Fund shall be used and withdrawn by the Depository solely for the purpose of making the Series G Domestic Water Installment Payments in the event that no other moneys of the District are available therefor.

The following provisions shall govern notwithstanding anything to the contrary set forth in this Installment Purchase Contract.

(i) The Authority and the District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by Assured Guaranty Municipal Corp. (“AGM”) and shall pay interest thereon from the date of payment by AGM at the Late Payment Rate. “Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2013G Water Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as AGM shall specify. If the interest provisions of this subsection (b)(i) shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created herein, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding hereunder to the extent that interest otherwise due hereunder for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by AGM, with the same force and effect as if the Authority and the District had specifically designated such extra sums to be so applied and AGM had agreed to accept such extra payment(s) as additional interest for such later periods. In no event shall any agreed-to or actual exaction as consideration for the indebtedness created herein exceed the limits imposed or provided by the law applicable to the Series 2013G Water Bonds for the use or detention of money or for forbearance in seeking its collection.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, “Policy Costs”) shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to AGM shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to AGM on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs shall be secured by a valid lien on all revenues and other collateral pledged as security for the Series 2013G Water Bonds (subject only to the priority of payment provisions set forth under the Installment Purchase Contract).

All cash and investments in the Series 2013G Reserve Fund shall be transferred by the Trustee to the Series G Domestic Water Interest Account and Principal Payment Account of the Revenue Fund for payment of debt service on the Series 2013G Water Bonds before any drawing may be made on the Reserve Policy or any other credit facility credited to the Series

2013G Reserve Fund in lieu of cash (“Credit Facility”). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Series 2013G Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Series 2013G Reserve Fund. For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(ii) If the Authority and the District shall fail to pay any Policy Costs in accordance with the requirements of subsection 4.02(b)(i) hereof, AGM shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under this Installment Purchase Contract other than (A) acceleration of Series G Domestic Water Installment Payments or (B) remedies which would adversely affect owners of the Series 2013G Water Bonds.

(iii) The Installment Purchase Contract shall not be discharged until all Policy Costs owing to AGM shall have been paid in full. The Authority’s obligation to pay such amounts shall expressly survive payment in full of the Series 2013G Water Bonds.

On the last day of each month, all remaining moneys in the Domestic Water Project Revenue Fund shall be applied to pay the portion of the Series 2007F Swap Contract Payments constituting termination payments, if any, and thereafter all remaining moneys in the Domestic Water Project Revenue Fund shall be deposited by the District in the General Fund for expenditure for any lawful purpose of the District.

SECTION 4.03 [\[Reserved\]](#).

SECTION 4.04 [Investments](#). Any moneys held by the District in the Domestic Water Project Revenue Fund and in the Installment Payment Fund shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement hereunder. Any moneys held by the Depository in the Series 2013G Reserve Fund shall be invested by the Depository in Permitted Investments, upon the written request of the District or the Authority or upon telephone request of the District or the Authority promptly confirmed in writing; provided that absent directions from the District as to investment of funds, the Depository shall invest in the Wells Fargo Heritage Money Market Fund or a successor fund offered by the Trustee. All investment earnings derived from the investment of funds on deposit in any fund or account created under this Installment Purchase Contract shall be retained in such fund or account, or otherwise applied in accordance with the Written Request of the District or the Authority.

The District may commingle any of the funds or accounts (except for funds held in the Rebate Fund, which shall be held separately) established pursuant hereto into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held

by the District hereunder shall be accounted for separately notwithstanding such commingling. For the purpose of determining the amount in any such fund or account, all Permitted Investments credited to any fund or account other than the Series 2013G Reserve Fund shall be valued at the lower of cost (inclusive of all interest accrued but not paid) or market value and such Permitted Investments credited to the Series 2013G Reserve Fund shall be valued on or before September 1 of each year at market value.

ARTICLE V

COVENANTS OF THE DISTRICT

SECTION 5.01 Compliance with Installment Purchase Contract and Ancillary Agreements. The District will punctually pay the Series G Domestic Water Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the Installment Purchase Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Domestic Water Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the District or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement and the Treatment and Delivery Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the Installment Purchase Contract, the Treatment and Delivery Agreement and the Trust Agreement that, subject to Section 9.06 hereof, each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the purchase of and payment for the Domestic Water Project by the District pursuant to, and in accordance with, and as authorized under the Law.

SECTION 5.02 Against Encumbrances. The District will not make any pledge of or place any lien on the Treatment and Delivery Revenues except as may be required to complete the Domestic Water System.

SECTION 5.03 Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Domestic Water System or any part thereof essential to the proper operation of the Domestic Water System or to the maintenance of the Treatment and Delivery Revenues. The District will not enter into any agreement or lease which impairs the operation of the Domestic Water System or any part thereof necessary to secure adequate Treatment and Delivery Revenues for the payment of the Domestic Water Installment Payments,

or which would otherwise impair the rights of the Authority with respect to the Treatment and Delivery Revenues or the operation of the Domestic Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Domestic Water System, or any material or equipment which has become worn out, may be sold at not less than the market value thereof if such sale will not reduce the Treatment and Delivery Revenues and if the proceeds of such sale are deposited in the Series 2013G Revenue Fund.

SECTION 5.04 [Against Competitive Facilities](#). The District will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water system competitive with the Domestic Water System.

SECTION 5.05 [Against Federal Income Taxation](#). (a) The District will not directly or indirectly use or permit the use of any proceeds of the obligation provided herein or any other funds of the District or take or omit to take any action that would cause such obligation to be an “arbitrage bond” within the meaning of Section 148(a) of the Code or a “federal-guaranteed obligation” within the meaning of Section 149(b) of the Code or a “private activity bond” as described in Section 141 of the Code. The District will not allow 10% or more of the proceeds of the obligations provided herein to be used in the trade or business of any nongovernmental units and will not loan 5% or more of the proceeds of the obligations provided herein to any nongovernmental units.

To that end, as long as any Series G Domestic Water Installment Payments are unpaid, the District will comply with all requirements of such sections of the Code to the extent applicable to the obligations provided herein. In the event that at any time the District is of the opinion that for purposes of this Section 5.05(a) it is necessary to restrict or to limit the yield on the investment of any moneys held by the District under this Installment Purchase Contract or by the Trustee under the Trust Agreement, the District shall so instruct the Trustee in writing, and the Trustee shall act in accordance with such instructions.

The District and the Authority covenant that they will at all times do and perform all acts necessary or desirable in order to assume that the interest component of the Series G Domestic Water Installment Payments will not be included in gross income of the holders of the Certificates for federal income tax purposes and will take no action that would result in such interest being so included. The District covenants to abide by all of the covenants, terms and conditions relating to the District set forth in Section 6.04 of the Trust Agreement.

(b) The District will pay or cause to be paid the Rebate Requirement as provided in the Tax Certificate. This covenant shall survive payment in full of the Series G Domestic Water Installment Payments. The District shall establish and maintain a fund separate from any other fund established and maintained hereunder designated the Rebate Fund. The District will cause the Rebate Requirement to be deposited in the Rebate Fund as provided in the Tax Certificate (which is incorporated herein by reference). Subject to the provisions of this section, moneys held in the Rebate Fund are hereby pledged to secure payments to the United States of America. The District, the Authority and the owners of the Series 2013G Water Bonds will have

no rights in or claim to such moneys. The District will invest all amounts held in the Rebate Fund in Permitted Investments.

Upon receipt of the Rebate Instructions required by the Tax Certificate, the District shall remit part or all of the balance held in the Rebate Fund to the United States of America as so directed. In addition, if the Rebate Instructions so direct, the District will deposit, or cause to be deposited moneys into or transfer or cause to be transferred moneys out of the Rebate Fund from or into such accounts or funds as the Rebate Instructions direct.

(c) Notwithstanding any provision of this section or of Article VIII, if the District receives an opinion of Bond Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Series G Domestic Water Installment Payments or the Series 2013G Water Bonds, the District may conclusively rely on such opinion in complying with the requirements of this section, and the covenants hereunder shall be deemed to be modified to that extent.

SECTION 5.06 [Prompt Acquisition and Construction](#). The District will take all necessary and appropriate steps as agent of the Authority to acquire and construct the Domestic Water Project with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

SECTION 5.07 [Maintenance and Operation of the Domestic Water System; Budgets](#). The District will maintain and preserve the Domestic Water System in good repair and working order at all times and will operate the Domestic Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Domestic Water System as they become due and payable. On or before the first date of each Fiscal Year (commencing January 1, 2014), the District will adopt and file with the Authority a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs of the Domestic Water System. Any budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the District with the Authority.

SECTION 5.08 [Payment of Claims](#). The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Treatment and Delivery Revenues or any part thereof or on any funds in the hands of the District prior or superior to the lien of the Domestic Water Installment Payments or which might impair the security of the Domestic Water Installment Payments.

SECTION 5.09 [Compliance with Contracts](#). The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Domestic Water System and all other contracts affecting or involving the Domestic Water System to the extent that the District is a party thereto.

SECTION 5.10 [Insurance](#).

(a) This District will procure and maintain or cause to be procured and maintained insurance on the Domestic Water System with responsible insurers in such amounts

and against such risks (including accident to or destruction of the Domestic Water System) as are usually covered in connection with domestic water systems similar to the Domestic Water System so long as such insurance is available at reasonable costs from reputable insurance companies. In the event of any damage to or destruction of the Domestic Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damages or destroyed portion of the Domestic Water System. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Domestic Water System shall be free and clear of all claims and liens.

If such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds shall be applied in part to the prepayment of Series G Domestic Water Installment Payments as provided in Article VI and in part to such other fund or account as may be appropriate and used for the retirement of Domestic Water Contracts in the same proportion which the aggregate unpaid principal balance of Series G Domestic Water Installment Payments then bears to the aggregate unpaid principal amount of such Domestic Water Contracts. If such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, are sufficient to enable the District to retire the entire obligation evidenced hereby prior to the final due date of the Series G Domestic Water Installment Payments as well as the entire obligations evidenced by Domestic Water Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Domestic Water System, and thereupon such Net Proceeds shall be applied to the prepayment of Series G Domestic Water Installment Payments as provided in Article VI and to the retirement of such Domestic Water Contracts.

(b) If the conditions set forth in Section 5.10(a) are not met, then such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, shall be applied in part to the prepayment of the Series G Domestic Water Installment Payments and the Series 2013G Water Bonds as provided in Article VI and in part to such other fund or account as may be appropriate and used for the retirement of the other Domestic Water Bonds and other Domestic Water Contracts in the same proportion which the aggregate unpaid principal balance of such Domestic Water Bonds and Domestic Water Contracts then bears to the aggregate unpaid principal balance of the Series G Domestic Water Installment Payments.

(c) The District will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with domestic water systems similar to the Domestic Water System; provided that any insurance required pursuant to this Section may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner

usually maintained in connection with domestic water systems similar to the Domestic Water System.

All policies of insurance required to be maintained herein shall provide that the Authority and the Trustee be named as additional insured parties and shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

SECTION 5.11 [Accounting Records; Financial Statements and Other Reports.](#)

(a) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Domestic Water System, which records shall be available for inspection by the Authority at reasonable hours and under reasonable conditions.

(b) The District will prepare and file with the Trustee, the Bond Insurer and the Authority annually within one hundred twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending December 31, 2013):

(1) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon and a special report prepared by the Independent Certified Public Accountant who examined such financial statements stating that nothing came to their attention in connection with such examination that caused them to believe that the District was not in compliance with any of the financial agreements or financial covenants contained herein; and

(2) a certificate of insurance as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Domestic Water System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby and that such insurance satisfies the requirements of this Installment Purchase Contract. The Trustee has no responsibility for the coverage or adequacy of any insurance or self-insurance.

(c) The District will prepare annually not more than one hundred twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending December 31, 2013) a summary report showing in reasonable detail the Treatment and Delivery Revenues and the Maintenance and Operation Costs of the Domestic Water System for such Fiscal Year and containing a general statement of the physical condition of the Domestic Water System. The District will furnish copies of such summary reports to the Authority, the Bond Insurer and to any investment bankers, security dealers and others interested in the Domestic Water Installment Payments requesting copies thereof.

(d) The District shall keep, and shall cause the Trustee to keep proper books of record and account in accordance with the Trustee's standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Domestic Water Installment Payments and the proceeds of the obligations provided herein. Such records shall specify the account or fund to which each investment (or portion thereof) held pursuant to the Installment Purchase Contract and the Trust

Agreement is to be allocated and shall set forth, in the case of each Permitted Investment, (i) its purchase price, (ii) identifying information, including par amount, coupon rate, and payment dates, (iii) the amount received at maturity or its sale price, as the case may be, (iv) the amounts and dates of any payments made with respect thereto, and (v) such other documentation as the District deems necessary.

Such records shall be open to inspection by the Authority at any mutually agreed upon time during regular business hours on reasonable notice. The Trustee shall furnish to the District upon written request reports on the dates and containing such information as the District shall require or request on its written request, covering the activities and transactions of the trust accounts required to be established and under its administration.

SECTION 5.12 [Protection of Security and Rights of the Authority](#). The District will preserve and protect the security hereof and the rights of the Authority to the Series G Domestic Water Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

SECTION 5.13 [Payment of Taxes and Compliance with Governmental Regulations](#). The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Domestic Water System or any part thereof or the Treatment and Delivery Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Domestic Water System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

SECTION 5.14 [Amount of Rates and Charges](#). The District will fix, prescribe and collect rates and charges for the Domestic Water Service which are reasonably fair and nondiscriminatory and which, together with all other lawfully available funds of the District, will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Domestic Water System for such Fiscal Year; and (ii) debt service on all Domestic Water Bonds and all Domestic Water Installment Payments for such Fiscal Year, in each case only to the extent they are then unpaid or are not discharged in accordance with their respective terms.

SECTION 5.15 [Special Appropriation](#). In the event that Revenues (as defined in the Trust Agreement) are insufficient to pay in full any amount then due and payable with respect to the Series 2013G Water Bonds, an Authorized District Representative (as defined in the Trust Agreement) shall submit to the Board of Directors of the District a special budget item requesting a special appropriation from the Board of Directors of the District of the amount of such insufficiency; provided, however, that the Board of Directors of the District shall have absolute discretion in determining whether such a special appropriation shall be made, and a determination not to make a special appropriation shall not in and of itself constitute an Event of Default.

SECTION 5.16 [Eminent Domain Proceeds](#). If all or any part of the Domestic Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the District obtains and files with the Authority an Engineer's Report showing (i) the estimated loss of annual Treatment and Delivery Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Domestic Water System proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Treatment and Delivery Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such Engineer's Report filed with the Authority, determines that the estimated additional annual Treatment and Delivery Revenues will sufficiently offset the estimated loss of annual Treatment and Delivery Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive) then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such Engineer's Report and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose shall be deposited in the Domestic Water Project Revenue Fund.

(b) If the conditions set forth in Section 5.16(a) are not met, then such Net Proceeds shall be applied in part to the prepayment of Domestic Water Installment Payments as provided in Article VI and in part to such other fund or account as may be appropriate and used for the retirement of Domestic Water Bonds and Domestic Water Contracts in the same proportion which the aggregate unpaid principal balance of Domestic Water Installment Payments then bears to the aggregate unpaid principal amount of such Domestic Water Bonds and Domestic Water Contracts.

SECTION 5.17 [Assignment of Authority's Rights](#). As security for the payment of the Domestic Water Bonds, the Authority will assign to the Trustee the Authority's rights under this Installment Purchase Contract, including the right to receive payments hereunder, and the Authority hereby directs the District to make the payments required hereunder directly to the Trustee. The District hereby consents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the District and the Authority or the Trustee.

SECTION 5.18 [Further Assurances](#). The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Authority of the rights and benefits provided to it herein.

ARTICLE VI

PREPAYMENT OF DOMESTIC WATER INSTALLMENT PAYMENTS

SECTION 6.01 [Prepayment](#). (a) The District may or shall, as the case may be, prepay from the Net Proceeds as provided herein all on any date or any part by lot (in Authorized Denominations, as such term is defined in the Trust Agreement) on any Domestic Water Installment Payment Date, the principal amount of the unpaid Series G Domestic Water

Installment Payments at a prepayment price equal to the sum of the principal amount prepaid plus accrued interest thereon to the date of prepayment, without premium.

(b) The Series G Domestic Water Installment Payments, together with any prepayment premium due on the Series 2013G Water Bonds as set forth in the Trust Agreement, may be prepaid by the District upon notice to the Trustee as required in Article IV of the Trust Agreement in whole or in part on any Domestic Water Installment Payment Date from any available funds.

(c) Notwithstanding any such prepayment, the District shall not be relieved of its obligations hereunder, including its obligations under Article III, until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been provided pursuant to Article VIII and to the written satisfaction of the Authority).

SECTION 6.02 [Method of Prepayment](#). Before making any prepayment pursuant to Section 6.01, the District shall, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date shall be not less than forty-five (45) nor more than seventy-five (75) days from the date such notice is given.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

SECTION 7.01 [Events of Default and Acceleration of Maturities](#). If one or more of the following Events of Default shall happen, that is to say:

(1) if default shall be made in the due and punctual payment of any Domestic Water Installment Payment or any Domestic Water Contract or Domestic Water Bond when and as the same shall become due and payable;

(2) if default shall be made by the District in the performance of any of the other agreements or covenants required herein to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Authority; or

(3) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default specified in clause (1) above, the Authority shall, and for any other such Event of Default the Authority

may, by notice in writing to the District, declare the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This Section however, is subject to the condition that if at any time after the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Domestic Water Installment Payments or the unpaid payment of any other Domestic Water Contract or Domestic Water Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Domestic Water Installment Payments or such Domestic Water Contract or Domestic Water Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

SECTION 7.02 [Application of Funds Upon Acceleration](#). All moneys in the Series G Domestic Water Installment Payment Account of the Installment Payment Fund upon the date of the declaration of acceleration by the Authority as provided in Section 7.01 and all Treatment and Delivery Revenues thereafter received shall be applied in the following order:

First, to the payment, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, of the fees, costs and expenses of the Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to its accountants and counsel; and

Second, to the payment of the entire principal amount of the unpaid Domestic Water Installment Payments and the unpaid principal amount of all Domestic Water Bonds and Domestic Water Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Domestic Water Installment Payments and such Domestic Water Bonds and Domestic Water Contracts if paid in accordance with their respective terms; and

Third, to the Bond Insurer any amounts due and payable to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy.

SECTION 7.03 [Other Remedies of the Authority](#). The Authority shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or such person's duties under the Law and the agreements and covenants required to be performed by it or such person contained herein;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

(c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

SECTION 7.04 [Non-Waiver](#). Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Domestic Water Installment Payments to the Authority at the respective due dates or upon prepayment from the Treatment and Delivery Revenues and the other funds herein pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the Law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the District and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

SECTION 7.05 [Remedies Not Exclusive](#). No remedy herein conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

ARTICLE VIII

[DISCHARGE OF OBLIGATIONS](#)

SECTION 8.01 [Discharge of Obligations](#). When

(a) all or any portion of not less than \$100,000 of the Domestic Water Installment Payments shall have become due and payable in accordance herewith or a written notice of the

District to prepay all or any portion of not less than \$100,000 of the Domestic Water Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Domestic Water Installment Payment Date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of not less than \$100,000 of the Domestic Water Installment Payments sufficient moneys and Permitted Investments, issued by the United States of America and described in clause (i) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Domestic Water Installment Payments to their respective Domestic Water Installment Payment Dates or to their prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee so long as such Domestic Water Installment Payments shall remain unpaid; and

(d) provision shall have been made for paying all amounts due to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy,

then and in that event, if an opinion of Special Counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to this Article VIII shall not adversely affect the exclusion of the interest portion of the Domestic Water Installment Payments from gross income for federal income tax purposes, the right, title and interest of the Authority herein and the obligations of the District hereunder shall, with respect to all or such portion of the Domestic Water Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Domestic Water Installment Payments). In such event, upon request of the District, the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the District, as an overpayment of Domestic Water Installment Payments, all such moneys or such Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Domestic Water Installment Payments which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Domestic Water Installment Payments and shall be applied by the Trustee to the payment of the Domestic Water Installment Payments of the District.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01 Liability of District Limited to Revenues. Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than the Treatment and Delivery Revenues and the other funds

provided herein for the payment of the Domestic Water Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Domestic Water Installment Payments is a special obligation of the District payable solely from the Treatment and Delivery Revenues and other funds, and does not constitute a debt of the District, the Authority or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

SECTION 9.02 [Benefits of Installment Purchase Contract Limited to Parties.](#) Nothing contained herein, expressed or implied, is intended to give to any person other than the District, the Bond Insurer or the Authority any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the District or the Authority shall be for the sole and exclusive benefit of the other party.

SECTION 9.03 [Successor Is Deemed Included in All References to Predecessor.](#) Whenever either the District or the Authority is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the District or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 9.04 [Waiver of Personal Liability.](#) No director, officer or employee of the District shall be individually or personally liable for the payment of the Domestic Water Installment Payments, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

SECTION 9.05 [Article and Section Headings, Gender and References.](#) The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to the Installment Purchase Contract as a whole and not to any particular article, section, subdivision or clause hereof.

SECTION 9.06 [Partial Invalidity.](#) If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the District or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The District and the Authority hereby declare that they would have executed the Installment Purchase Contract, and each and every other article, section, paragraph, subdivision,

sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 9.07 [Net Contract](#). The Installment Purchase Contract shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof the Domestic Water Installment Payments and all other payments required hereunder, free of any deductions and without any abatement, diminution or set-off whatsoever.

SECTION 9.08 [California Law](#). The Installment Purchase Contract shall be construed and governed in accordance with the laws of the State of California.

SECTION 9.09 [Notices](#). All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely

If to the District: Modesto Irrigation District
1231 Eleventh Street
P.O. Box 4060
Modesto, CA 95352
Attention: Assistant General Manager –
Finance and Treasurer

If to the Authority: Modesto Irrigation District Financing Authority
c/o Modesto Irrigation District
1231 Eleventh Street
P.O. Box 4060
Modesto, CA 95352
Attention: Treasurer

If to the Bond Insurer: Assured Guaranty Municipal Corp.
31 West 52nd Street
New York, New York 10019
Attention: Managing Director – Surveillance, Re:
Policy No. 215749-R

Copies of any notices given hereunder shall be sent to the Bond Insurer at the address specified above and to the City of Modesto at:

City of Modesto
1010 Tenth Street, Suite 5200
Modesto, California 95353
Attention: Director of Finance

SECTION 9.10 [Effective Date; Scope of Amendments and Restatements](#). This Installment Purchase Contract, as amended and restated herein, shall become effective upon its execution and delivery. This Installment Purchase Contract, as amended and restated herein, shall terminate when the Purchase Price shall have been fully paid (or provision for the payment

thereof shall have been made pursuant to Article VIII and to the written satisfaction of the Authority).

SECTION 9.11 [Execution in Counterparts](#). The Installment Purchase Contract may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed and attested this Installment Purchase Contract by their officers thereunto duly authorized as of the day and year first written above.


MODESTO IRRIGATION DISTRICT



Interim General Manager

(SEAL)

Attest



Secretary of the Board of
Directors

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By 

Interim Treasurer

Attest



Secretary

Exhibit A

DESCRIPTION OF THE DOMESTIC WATER PROJECT

The Domestic Water Project consists of a water treatment plant, treated water transmission pipelines, terminal reservoir/pumping station and treated water distribution pipelines, located within the District's boundaries and providing approximately 30 million gallons per day of treated surface water to its customers within the District.

ORIGINAL

Amended and Restated Treatment and Delivery Agreement

Between

Modesto Irrigation District and City of Modesto

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Exhibit B – Map of District Project Facilities

AMENDED AND RESTATED
TREATMENT AND DELIVERY AGREEMENT

AMONG

MODESTO IRRIGATION DISTRICT AND CITY OF MODESTO

1. PARTIES.

The Parties to this Amended and Restated Treatment and Delivery Agreement are Modesto Irrigation District, a California irrigation district, and City of Modesto, a California municipal corporation and charter city, who agree as follows:

2. RECITALS.

This Agreement is made with reference to the following facts and circumstances, among others:

2.1. District Formation and General Purposes. District was formed more than 100 years ago for the purpose of providing irrigation water to serve the needs of agriculture. To that end, District has perfected water rights sufficient to meet those needs. District's development of its water rights and its agricultural irrigation delivery system, and the careful attention to the needs of District's agricultural water users, have been prominent in making Stanislaus County one of the world's foremost agricultural areas. In recent years, population growth within District's boundaries has reduced the irrigated acreage while increasing the demand for municipal uses of water. The Parties desire to put to beneficial municipal use for the inhabitants of District certain amounts of surface water to which District has rights. In doing so, the Parties shall be mindful of the great importance of District's water rights, and the significant role of agriculture within District. The area to be served with water pursuant to this Agreement is within District's Irrigation District Boundary. The water to be supplied by District pursuant to this Agreement is not surplus water, but rather is water which has historically been put to beneficial agricultural use within District and is now necessary for municipal use within District.

2.2. [Not Used]

2.3. Water Management Study. District and City authorized, received, and accepted the Study, which was completed in 1984.

2.4. Problems of Reliance on Groundwater The Study found, in part, that existing groundwater sources of City are limited and supplies are declining, and that a continued decline in the quantity of groundwater will result in a gradual degradation of the quality of the groundwater. This degradation of quality, combined with on-going Modifications to State and Federal drinking water standards, will make it increasingly difficult to meet domestic water supply demands solely through the use of groundwater.

2.5. Water Rights. District has certain water rights with respect to the waters of the Tuolumne River.

2.6. Study Recommendation. The Water Management Study recommended, in part, that City and DEW contract with District for treated surface water to supplement its groundwater supplies. This resulted in construction of the existing surface water treatment plant located at the Modesto Reservoir. The design, financing, construction, operation and maintenance of the water treatment plant was implemented pursuant to the Treatment and Delivery Agreement Among Modesto Irrigation District, City of Modesto, and Del Este Water Company that was approved in 1992.

2.7. Projection Expansion. Pursuant to the 1992 Agreement, District designed and constructed, and now owns, operates and maintains, the initial Project facilities, including the Modesto Regional Water Treatment Plant, which has a rated treatment capacity of 30 million gallons of treated water per day (mgd). The 1992 Agreement contemplates that the parties may agree at some time to expand the Project up to a capacity of 60 mgd.

2.8. Environmental Clearance. District, with the assistance of its environmental consultant, completed a final environmental impact report for the Initial Facilities and, on April 17, 1990, the Board of Directors of District adopted Resolution 90-50 which, among other things, certified the EIR and caused a Notice of Determination to proceed with the Project to be filed in accordance with the California Environmental Quality Act and the CEQA Guidelines. The parties prepared a Subsequent Environmental Impact Report on the First Expansion Facilities, and District and City cooperated as CEQA co-lead agencies of the preparation of the SEIR, which addresses the First Expansion Facilities and this Amended and Restated Agreement. The SEIR also studies other City water system improvements to be financed, designed,

constructed and operated by City outside of this Agreement. The parties have certified the SEIR and made appropriate CEQA findings. (See District Resolution No. 2005-92, pertaining to SEIR Certification; District Resolution No. 2005-158, pertaining to CEQA Findings; City Resolution No. 2005-378, pertaining to the SEIR Certification; City Resolution No. 2005-515, pertaining to the CEQA Findings.)

2.9 Use of Available Water to Carry Out Recommendations of the Urban Water Management Plan. It is in the best interests of the Parties and their respective water users to utilize District's available water to expand the present capacity of the MRWTP to provide treated water to City in an environmentally acceptable manner, which is not injurious to agricultural water users or any other interests of District.

2.10. Enterprise Fund. It is the intention of the Parties that, except as specifically provided otherwise herein, the Project shall be financially operated as an enterprise fund with costs borne by City, and with neither profits nor losses accruing to District as a result of the Project. All terms of this Agreement shall be construed in accordance with the intent of this Section 2.10.

2.11. Long Term Water Supply. By this Agreement, the Parties intend to provide for and increase the long-term source of domestic Treated Water supply for City.

2.12. Conservation. In entering into this Agreement, the Parties recognize that it is important to continue to encourage both urban and agricultural water users within District to utilize water conservation practices, which are effective, practical, and economical.

2.13. Groundwater. The Parties recognize the importance of an adequate supply of good quality groundwater. The Parties in the future, as they deem appropriate, shall cooperate in necessary ground water management efforts as may be required by future State or Federal legislation or regulations.

2.14. DEW Acquisition. In 1995, City acquired certain assets of DEW, including all of the Company's rights, interests and obligations in and to the Project and 1992 Agreement. The parties acknowledge and confirm that (a) District has consented to this transfer and assignment pursuant to the 1992 Agreement, (b) DEW is no longer a party to the 1992 Agreement, and (c) all DEW's rights, interests and obligations in and to the 1992 Agreement have been transferred to and accepted by City. Consequently, DEW no longer has any right or interest in the 1992 Agreement or the Project and therefore is not a party to this Agreement.

2.15. Purpose of Agreement. The Parties desire to amend the 1992 Agreement to (a) provide for expansion of the MRWTP to 60 mgd and construction of related facilities, (b) address City's acquisition of DEW's interests in the 1992 Agreement and Project, and (c) make certain other changes. In order to simplify and clarify the applicable contract terms and consolidate all current contract terms and conditions into a single document, the parties have incorporated the amendments into this amended and restated agreement, which includes the 1992 Agreement as amended.

3. AMENDMENT AND RESTATEMENT OF 1992 AGREEMENT.

The 1992 Agreement is hereby amended and restated in full with the amendments as set forth in this Amended and Restated Treatment and Delivery Agreement. The 1992 Agreement therefore is hereby terminated and superseded by this Agreement. Any right, debt, obligation or liability under or secured by the 1992 Agreement shall be deemed a right, debt, obligation or liability under or secured by this Agreement.

4. DEFINITIONS.

4.1. Advances. All costs advanced by District pursuant to Section 10.1 during the Design Phase, except Sunk Costs, together with an estimate made just prior to the Financing and agreed upon by the Parties with respect to all advances, which are to be made by District prior to the end of the Design Phase.

4.2. Advisory Committees. The committees created pursuant to Section 18.6.

4.3. Agreement. This Amended and Restated Treatment and Delivery Agreement between District and City.

4.4. 1992 Agreement. The Treatment and Delivery Agreement Among Modesto Irrigation District, City of Modesto, and Del Este Water District that was approved in 1992.

4.5. Approvals. The licenses, permits, entitlements, and privileges necessary for the construction, operation, and maintenance of the Project.

4.6. Board. The Board of Directors of District.

4.7. Chief Executive Officers. The City Manager and the General Manager of District, or their respective designees.

4.8. City. City of Modesto.

4.9. City Gross Water Revenues. All gross income and revenue received or receivable by City from the ownership and operation of City Municipal Water System, which gross income

and revenue shall be calculated in accordance with generally accepted accounting principles, including all rates, fees, and charges received by City for water service and connection and hook-up fees and all other income and revenue however derived by City from the ownership and operation of or arising from City Municipal Water System, but excluding in all cases any proceeds of taxes and any refundable deposits made to establish credit, federal or state grants, or advances or contributions in aid of construction, or monetary recoveries in lawsuits on behalf of City's water rate payers for environmental and other torts and actions at law.

4.10. City Municipal Water System. The municipal water system of City existing on the effective date of this Agreement and all additions, betterments, extensions, and improvements thereto hereafter acquired or constructed.

4.11. Commercial Operation Date. The first day following the Test Period.

4.12. Commercial Operation Phase. The (a) ongoing operation and maintenance of the Initial Facilities, and (b) for the First Expansion Facilities, the Period beginning with the Commercial Operation Date and continuing thereafter.

4.13. Construction Phase. The Period during which the First Expansion Facilities are constructed, ending with the end of the Test Period.

4.14. Debt Service. The payments required to be made for principal, interest, and other charges, if any, to the holders of evidences of indebtedness or certificates of participation issued by District pursuant to this Agreement to finance the Project. If bond insurance is used in connection with Fixed Financing, Debt Service shall include bond insurance premiums.

4.15. Debt Service Reserve Fund. The fund established and maintained pursuant to Section 12.2 of this Agreement.

4.16. Design Phase. The Period of First Expansion Facilities environmental review and design ending with the start of construction of the Project.

4.17. DEW. Del Este Water Company.

4.18. District. Modesto Irrigation District.

4.19. District Interest Rate. For the Period for which interest is to be calculated, interest at the same average monthly yield as District earns on its general fund portfolio, provided, however, that if at any time District's average cost of borrowing money exceeds District's rate of return on its general fund portfolio, the interest on amounts advanced by District shall be District's cost of borrowed money. In no event shall the rate of interest determined pursuant to

this Section 4.18 as applied exceed the legal limit. Interest shall accrue monthly beginning at the time District actually expends the funds on which the interest is to accrue.

4.20. District's Electrical Service Area Boundary. The boundary of the electrical service area of District as shown on the official maps and records of District.

4.21. District's Irrigation District Boundary. The irrigation district boundary of District, as opposed to District's Electrical Service Area Boundary, as shown on the official maps and records of District.

4.22. Domestic Water Year. Each 12 month period commencing on May 1 and ending on the next succeeding April 30.

4.23. Finance Committee. A committee consisting of the Director of Finance of City and the chief financial officer of District, or their respective designees.

4.24. Financing. The actual putting into place of Variable Financing or Fixed Financing to the point of the disbursement of funds as needed to allow construction of the First Expansion Facilities to proceed.

4.25. First Expansion Facilities. The expansion of the MRWTP as described in the SEIR (but excluding those water system transmission and storage facilities to be financed, designed and constructed by City), or such other First Expansion Facilities description as may be approved by the parties in writing.

4.26. Fixed Costs. All costs other than Debt Service which must be borne by District in connection with the Project irrespective of whether the Project is producing Treated Water or not.

4.27. Fixed Financing. Long term Project Financing with fixed terms and rates extending for the length of the repayment period.

4.28. Initial Amount. The amount to be initially deposited to the Reserve and Contingency Fund pursuant to Section 12.1 and thereafter the amount currently required to be maintained in the Reserve and Contingency Fund pursuant to Section 12.1.3.

4.29. Initial Facilities. The diversion facilities, 30 million gallons per day water treatment facilities, pipelines, pumps, storage facilities, and other improvements as described in and completed during the original project pursuant to the 1992 Agreement to deliver Treated Water to City.

4.30. Maximum Annual Debt Service. The largest amount of Debt Service to be paid under Fixed Financing during any Year.

4.31. Modifications. Any improvements or alterations in the Project mandated by regulatory agencies, or required to meet the provisions of Section 9.4, or changes in the Project agreed upon as necessary by the Parties.

4.32. MRWTP. District's Modesto Regional Water Treatment Plant

4.33. Next Turnout. The first point of diversion onto private land or into a smaller canal or pipeline below any point at which City discharges groundwater into an irrigation canal as provided in Section 9.8.1.

4.34. Other City Water. All groundwater and surface water supplies available to City for municipal and industrial purposes excluding Raw Water and Treated Water.

4.35. Parity Debt. Loans, bonds, notes, advances or indebtedness, or other obligations of City payable from and secured by a pledge of water rates, and charges of City on a parity with the obligations to be paid by City pursuant to this Agreement.

4.36. Parties. District and City.

4.37. Period. One or more Calendar Years or Domestic Water Years and/or any portion thereof.

4.38. Phases. The Design Phase, the Construction Phase, and the Commercial Operation Phase.

4.39. Policy Committee. The Committee created pursuant to Section 18.6.1 of this Agreement.

4.40. Prior Agreement. The Advance Funding and Reimbursement Agreement executed by the parties October 7, 2003, as amended, which identifies environmental review and preliminary design costs to be funded by District and later reimbursed by the First Expansion Facilities Financing.

4.41. Project. The Initial Facilities (as described in and constructed pursuant to the 1992 Agreement) plus the First Expansion Facilities. If the First Expansion Facilities are terminated pursuant to section 22.2 prior to completion, then "Project" shall mean and be limited to the Initial Facilities.

4.42. Project Manager. The person or entity as is appointed pursuant to Section 18.1.2 of this Agreement.

- 4.43. Project Observer. The observer or observers that may be appointed pursuant to Section 8.2.
- 4.44. Property Cost. As to an interest in real property either owned or acquired by City and then acquired by District for the Project pursuant to Section 7.1.2, (i) the fair market value of already owned property at the time it is conveyed to District, and (ii) the purchase price of newly acquired property, including, but not limited to, incidental costs such as legal fees, appraisal fees, and title fees.
- 4.45. [Not Used]
- 4.46. Raw Water. Water of District diverted to the Project.
- 4.47. Raw Water Charge. The cost of Raw Water for the year as set forth in Section 14.2.
- 4.48. Reserve and Contingency Fund. The reserve and contingency fund established and maintained pursuant to Section 12.1 of this Agreement.
- 4.49. SEIR. The Subsequent Environmental Impact Report for the MRWTP Phase Two Expansion Project dated June 2005.
- 4.50. Service Area. City municipal water system service areas as shown and described in the Urban Water Management Plan, as the same may be adopted by City from time to time.
- 4.51. Surface Water Service Area. The portion of the Service Area located within District's Irrigation District Boundary.
- 4.52. Study. The Water Management Study, prepared by James M. Montgomery Consulting Engineers, dated November 1984.
- 4.53. Sunk Costs. Those costs associated with the First Expansion Facilities incurred by the Parties and set forth in Exhibit A of this Agreement.
- 4.54. Technical Committee. The committee created pursuant to Section 18.6.2 of this Agreement.
- 4.55. Termination. A termination of the Agreement pursuant to section 22.1.
- 4.56. Test Period. The seven day Period immediately following the completion of the construction of the First Expansion Facilities during which those facilities are tested as to their ability to operate and produce Treated Water meeting the standards of Section 9.4 in the quantity specified in Section 9.2. If during the initial seven day Period the First Expansion Facilities fail to operate and produce Treated Water meeting the standards of Section 9.4 in the quantity

specified in Section 9.2, the Test Period shall be extended until the time when the First Expansion Facilities have in fact demonstrated their ability to operate and produce Treated Water meeting the standards of Section 9.4 in the quantity specified in Section 9.2.

4.57. TIC. "True Interest Cost" as the term is commonly applied in municipal finance.

4.58. Treated Water. All water meeting the standards of Section 9.4 delivered from the Project to City at point or points of delivery.

4.59. Trustee. The trustee or trustees, if any, appointed in the documents executed in connection with any Financing.

4.60. Urban Water Management Plan. The 2000 Urban Water Management Plan dated October 2001, which was adopted by District with District Resolution No. 2001-134 and by City with City Resolution No. 2001-480, as the same may be adopted by the parties from time to time.

4.61. Variable Financing. Project Financing with variable rates and terms during the First Expansion Facilities Construction Phase and until Fixed Financing is put in place.

4.62. Water Shortage Condition. Any Period in which pursuant to Section 17.2 the Treated Water available to City falls below 33,602.1 acre-feet during a full Domestic Water Year because of a reduction in District's water supply due to a cause beyond District's control, whether due to drought, new or amended federal or state statute or regulation, court order, federal or state government agency license, permit, order or ruling, or good faith settlement agreement in lieu of a court order or federal or state government agency order or ruling. Upon completion of the First Expansion Facilities (as evidenced by the Commercial Operation Date), this quantity shall be changed to 67,204.2 acre-feet per year.

4.63. Year. Each 12 month period commencing on January 1 and ending on the next succeeding December 31.

5. TERMINATION OF PRIOR AGREEMENT.

By execution of this Agreement the Parties intend to, and do, hereby terminate and cancel the Prior Agreement, provided, that to the extent provisions of this Agreement are the same or have the same meaning as provisions of the Prior Agreement, those provisions shall be deemed to have been continuously in effect since the date of the Prior Agreement.

6. PROJECT AND FIRST EXPANSION FACILITIES.

6.1. Obligations of District and Expansion. Pursuant to sections 4.41 and 6.1 of the 1992 Agreement, the parties agree to expand the Project to include the First Expansion Facilities.

District shall finance, design, acquire lands and rights-of-way for, acquire licenses and permits for, construct, own, operate and maintain the First Expansion Facilities pursuant to applicable provisions of this Agreement, including, but not necessarily limited to, sections 6 through 13, inclusive and 18. In designing, constructing, operating and maintaining the First Expansion Facilities, District also shall comply with applicable provisions of the SEIR, the related mitigation monitoring plan, and Urban Water Management Plan. The configuration, design, construction, and financing of the First Expansion Facilities shall be determined in accordance with this Agreement.

6.1.1. The parties acknowledge that City intends to concurrently finance, design, acquire lands and rights-of-way for, acquire permits for, construct, own, operate and maintain certain water system transmission, distribution and storage facilities that are described and analyzed in the SEIR but not part of the First Expansion Facilities for purposes of this Agreement.

6.1.2. The Project facilities owned, operated and maintained by District and the points of delivery to City water system are shown on the map attached as Exhibit B and incorporated herein. All municipal water system facilities downstream of such points of delivery are owned by and the responsibility of City. The meters at District-City points of delivery shall be owned and operated by District as part of the Project.

6.2. First Expansion Facilities Phases. Implementation and completion of the First Expansion Facilities shall be undertaken in three Phases consisting of the Design Phase, the Construction Phase, and the Commercial Operation Phase, as described in sections 4.38 and 6 through 9, inclusive.

6.3. Area to be Served by Project. The area to be served by the Project is the Surface Water Service Area. District acknowledges that City's entire Service Area extends beyond the Surface Water Service Area, that the portions of the Service Area located outside of the Surface Water Service Area are served by City with City groundwater and City water supplies other than the Treated Water, and that the Treated Water and Other City Water are commingled in a single water distribution system that serves the entire Service Area. City shall have the right to continue to commingle the Treated Water and Other City Water for use throughout the Service Area, provided that in no event shall water from the Project be transported outside the Surface Water Service Area that is not replaced with an equal or greater amount of Other City Water in

accordance with section 17.6 below. Subject to all other limitations in this Agreement, Treated Water may be used outside the Surface Water Service Area without replacement by Other City Water if the Parties have approved that use after any environmental processing required by law has taken place.

6.4. Ownership, Assignment, and Sale of Project Water to Others.

6.4.1. District Sole Owner. District shall be the sole owner of the Project, however City shall have rights in the Project as set forth in this Agreement.

6.4.2. Sale, Transfer, or Assignment. Except as to management and operation as expressly provided in section 6.4.3, District shall not sell, transfer, or assign any interest in the Project. This section 6.4.2 does not prohibit District from disposing of excess or surplus personal property or land, provided that the proceeds of the disposition shall be credited to the Project.

6.4.3. Assignment of Management and Operations. In the event that District contemplates the assignment or transfer of the management and operation of its interest in the Project to an entity other than City, then, prior to the assignment or transfer, the Parties shall meet and confer to determine whether it is practical to make the assignment or transfer to City. District shall not assign, transfer, contract out, or subcontract all or substantially all of District's operation and maintenance obligations under the Commercial Operation Phase without the prior written consent of City.

6.4.4. Interest of City. Upon completion of the Construction Phase and during the life of this Agreement throughout the Commercial Operation Phase, including after retirement of the Fixed Financing or other debt for the Project, City shall have and continue to have a permanent beneficial interest in the output of the Project in accordance with the terms of this Agreement.

6.4.5. Assignment By City. City shall not assign or transfer its right or interest in the Project, in whole or in part, without the prior written consent of District, which consent shall not be unreasonably withheld. Any assignment or transfer by City without consent of District shall be void. No assignee or transferee of City shall obtain any right or interest in this Agreement until it assumes by written instrument all obligations under this Agreement with respect to the right or interest transferred or assigned, and it becomes a Party to this Agreement by executing this Agreement or an amendment thereto also executed by the Parties.

6.4.6. Sale of Treated Water to Other Entities. District shall not sell, lease, transfer, or in any other manner direct or convey Treated Water from the Project to any person or entity other than City without the prior written consent of City, which consent shall not be unreasonably withheld. Prior to selling, leasing, transferring, or conveying Treated Water from the Project to any person or entity other than City, District shall first offer the water to City. City may take all or a portion of the Treated Water offered. Unless parties otherwise agree, the price of any Treated Water sold, leased, transferred, or conveyed by District to any person or entity other than City shall not be less than the full cost of producing the water including Sunk Costs and Raw Water, capital, treatment, operation, maintenance, and administrative costs, and in any event shall not be lower than the price to City. In the event the cost of furnishing water to any person or entity other than City is less than the charges to that person or entity, the excess revenue shall be applied to the operation of the Project. Subject to the provisions of Section 6.4.5, this Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors and assignees.

6.5. Disposition of Plans. City, upon request, shall be entitled to obtain and keep copies of all reports, drawings, studies, plans, specifications, other engineering documents, and all other documents pertaining to the Project, provided that City has fully paid its share of all costs due up to the time of the request, as those costs are due and owing pursuant to this Agreement.

6.6. Cooperation in Proceeding with First Expansion Facilities. District shall, to the extent it has not already done so, utilize its best efforts to acquire and maintain ownership of all easements, water conveyance rights, water rights, and Approvals necessary for the construction, operation, and maintenance of the First Expansion Facilities. City shall utilize its best efforts to support the First Expansion Facilities and its Financing and assist District in regard to the matters set forth in this Section 6.6 in order to facilitate the Financing, construction, operation, and maintenance of the First Expansion Facilities.

7. DESIGN PHASE.

7.1. Design Phase Work. Under the Advance Funding and Reimbursement Agreement, Design Phase work on the First Expansion Facilities has been commenced and is currently under way. District has retained various engineers and consultants to perform the work. District may utilize different engineers and consultants on the First Expansion Facilities, subject

to City's approval of engineering services contracts pursuant to Agreement section 18.3.1. To the extent items are not already completed or under way, during the Design Phase each of the following shall occur:

7.1.1. District to Obtain Approvals. To the extent practical, District shall obtain all Approvals during the Design Phase. Approvals, which cannot be obtained during Design Phase, shall be obtained as soon thereafter as practical.

7.1.2. Property Interests. District shall acquire all land, easements, and rights of way required for the construction, operation, and maintenance of the First Expansion Facilities including real property interests owned by City where applicable. City shall assist with the identification and acquisition of all water storage sites within its respective Service Areas. If City either acquires real property for District's portion of the First Expansion Facilities, or agrees to the utilization of already owned property for District's portion of the Project, then District shall acquire the real property from City at the Property Cost.

7.1.3. Preliminary and Final Design. The First Expansion Facilities engineers shall prepare preliminary design development plans and specifications and a preliminary cost estimate, and, after approval by the Parties of the preliminary design and cost estimate as provided in Sections 18.3 and 18.4, the engineers shall prepare final and complete construction documents and a final cost estimate.

7.1.4. Preliminary Financing Work. The financial advisor, underwriter, bond counsel, and District shall perform preliminary work necessary for the Financing of the First Expansion Facilities and shall make a Financing proposal to City.

7.2. Costs for Design Phase to be Advanced. Costs for all work performed during the Design Phase shall be advanced in accordance with the provisions of Section 10.1.

7.3. Reimbursement of Advanced Design Phase Costs. Reimbursement of the costs advanced pursuant to Section 10.1 shall be made in accordance with Section 10.2. The SEIR and First Expansion Facilities environmental review costs shall be considered design costs to be advanced by District and reimbursed pursuant to sections 4.1, 7.2, 7.3, 10.1 and 10.2; provided, however, that SEIR, First Expansion Facilities environmental review and other costs paid or advanced by City pursuant to the Prior Agreement shall not be reimbursed to District, but shall be reimbursed to City through the First Expansion Facilities Financing.

8. CONSTRUCTION PHASE.

8.1. Finalization of Financing and Construction. The Construction Phase shall consist of finalization of the Financing and the construction of the First Expansion Facilities. Prior to the commencement of the Construction Phase all necessary agreements for the Financing and construction, purchase, and sale of water, and operation and maintenance of the First Expansion Facilities shall be executed.

8.2. First Expansion Facilities Observer. City may designate a First Expansion Facilities Observer to function during the Construction Phase. City shall pay all costs for the First Expansion Facilities Observer, including, but not limited to, salary and fringe benefits. A First Expansion Facilities Observer may: (i) be at the construction site of the First Expansion Facilities at any time he/she elects; (ii) observe on-going and completed construction; and (iii) have access to all of District's records, files, and documents related to the design and construction of the First Expansion Facilities. He/she shall not direct, comment to, correct, advise, or otherwise deal with personnel of any contractor or District except that the First Expansion Facilities Observer may bring to the attention of the Project Manager any concerns noted by him/her and may bring those concerns to City. The First Expansion Facilities Observer shall observe all applicable requirements of the Occupational and Health Safety Act and all other statutes, rules, and regulations applicable to employee safety on construction sites. The Project Manager may exclude from the construction site any First Expansion Facilities Observer who, after warning, fails to observe the limitations and requirements of this Section 8.2.

9. COMMERCIAL OPERATION PHASE.

9.1. Commercial Operation Phase. District shall continue the Commercial Operation Phase as to the Initial Facilities. The Commercial Operation Phase for the First Expansion Facilities shall commence immediately following the Test Period. Any water produced during the Test Period, which meets the standards of Section 9.4, shall be delivered to City.

9.2. Test Quantity. During the Test Period after completion of the First Expansion Facilities, Treated Water from the MRWTP shall be produced at a rate of 60 million gallons per day or at the highest rate below 60 million gallons per day which City system is able to accept. During the Test Period every reasonable effort shall be made to produce Treated Water at the rate of 60 million gallons per day. The Parties shall cooperate during the Test Period in an effort to maximize production of water and acceptance of water by City system.

9.3. District Obligations During Commercial Operation Phase. During the Commercial Operation Phase District shall: (i) operate and maintain the Project in as economic a manner as practical in accordance with generally accepted waterworks practices as evidenced by well designed and operated potable water treatment plants of a similar size in Northern California; and (ii) deliver Treated Water to City consistent with the terms of this Agreement. Until the Commercial Operation Date for the First Expansion Facilities, District's operation and maintenance responsibilities shall be limited to the Initial Facilities. After the Commercial Operation Date for the First Expansion Facilities, District's operation and maintenance responsibilities shall include the First Expansion Facilities.

9.4. Standards of Treated Water. Throughout the term of this Agreement, or any successor or substitute agreement, or extensions thereof, District shall deliver to City Treated Water which meets all state and federal drinking water quality standards applicable to the Project at the time of delivery to City system.

9.5. Obligation of City to Take Water. City at all times shall exercise its best efforts to take all Treated Water made available to City, up to the amount identified in Sections 14.8 and 17.3.

9.6. Cooperation in Operation. The Parties shall cooperate and remain in frequent telephonic or other communication so as to efficiently operate the domestic water system and fully put to use the Treated Water produced by the MRWTP.

9.7. Expansion of Groundwater Capacity and Commingling of Groundwater. Throughout the term of this Agreement, City shall maintain and, to the extent it deems necessary, expand, its well system so that the groundwater used in conjunction with the Treated Water will best enable City to be able to meet its customer demands. It is understood that District's obligations to deliver Treated Water are as otherwise set forth in this Agreement. Groundwater is to be delivered by City through its same water pipelines which will carry the Treated Water, resulting in a physical commingling of the groundwater and surface supplies.

9.8. Exchange of Groundwater for Treated Water. Subject to the absolute limitation of 67,204.2 acre feet per Domestic Water Year, and subject to approval of District as to time and place of delivery, which approval shall not be unreasonably withheld, City, at its option, may deliver groundwater to District irrigation canal system in exchange for an additional amount of

Treated Water from District equal to the quantity of groundwater delivered to District irrigation canal system, provided that each of the following conditions is met:

9.8.1. Delivery. Any groundwater delivered by City shall be delivered into one of the irrigation canals of District. After blending the groundwater discharged with the water then in the canal, the quality of the water, sampled at the Next Turnout, shall be of a quality suitable for agricultural use, including without limitation, use for crops, orchards or livestock.

In the event that water samples at the Next Turnout demonstrate, based upon the quality standards set forth above, that the groundwater after mixing is not suitable for agriculture, City shall immediately cease making those discharges which contribute to the unsuitability of the water at the point at which the sampling occurred

9.8.2. Costs. City shall bear all costs, including the cost of additional capital facilities, if any are necessary, associated with delivering exchange groundwater supply to District irrigation canal system.

9.8.3. Records. City shall maintain a record of the quantity of exchange groundwater delivered to District irrigation canal system and the quality of blended water in the canal at the Next Turnout below each point of introduction of groundwater.

9.8.4 Use of District Pumps. In order to facilitate the exchange of groundwater pursuant to this Section 9.8, City may enter into an agreement with District for the use of District owned or controlled pumps to accomplish the exchange. City shall reimburse District for all costs incurred, including electric rates normally charged for pumping and costs of operations, maintenance, repair, administration, and personnel. Agreements pursuant to this Section 9.8.4 shall be at the sole discretion of District.

9.9. Force Majeure. District shall be excused from its obligation to deliver Treated Water in the event that District is rendered unable, wholly or in part, by force majeure to carryout its obligations under this Agreement. Upon the occurrence of an event of force majeure, District shall give notice and full particulars of the force majeure in writing, or by telephone followed by a writing. District's performance shall be suspended during the continuance of the force majeure. The term "force majeure" as used herein shall mean acts of God, strikes, lock-outs, failure or refusal of any person or entity to comply with then existing agreements to obtain or ship materials or equipment, or industrial disturbances, acts of a public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, volcanic eruptions,

fires, flood, washouts, or other natural disasters, threat of physical harm or damage resulting in the evacuation or shutdown of facilities necessary for the supply, treatment, and distribution of water, arrests and restraints of governments and people, civil disturbances, insurrection, explosions, sabotage, restraint by court order or public authority, other than District, having jurisdiction over the Project, and action or non-action by, or failure to obtain authorizations or approvals from, any governmental agency or authority of competent jurisdiction, and any other causes, whether of the kind herein enumerated or otherwise, not within the control of the Party claiming force majeure and which, by the exercise of due diligence, the Party is unable to prevent or overcome. District shall use its best efforts to promptly bring to an end any condition falling within the definition of force majeure. District shall prepare, revise from time to time as appropriate, and implement when necessary an operational plan to deal with strikes and lockouts so as to minimize interruption of the delivery of Treated Water to City in the event of a strike or lockout. It is understood and agreed that the settlement of strikes or lockouts shall be entirely at the discretion of the Party having the difficulty. In the event of a strike or lockout, District's obligation to perform under this Agreement shall not be suspended for a Period of more than 60 days. If District gives notice of a force majeure event which impacts District's ability to deliver Treated Water, then the provisions of Section 13 shall be determinative as to whether City is excused from its obligation to pay Debt Service and Fixed Costs. Upon the occurrence of any event of force majeure which may render District wholly or in part unable to carry out its obligations under the Agreement, to the extent reasonably practical District shall use its best efforts to promptly implement a plan to ensure the continued operation of the Project and continued delivery of Treated Water to City.

10. ADVANCE OF PRE-CONSTRUCTION COSTS.

10.1. Advances by District, City, Sunk Costs, and Approval of Other Costs. City shall be liable for the payment of all costs and expenses of all Phases of the Project in accordance with this Agreement. To facilitate the planning and construction of the First Expansion Facilities, and pursuant to the Prior Agreement, District has already advanced certain First Expansion Facilities costs. Some costs have been advanced by City. District shall advance all costs reasonably necessary for completion of all engineering and design work, feasibility studies, permit, and licensing costs, and all other work required and conducted during the Design Phase of the First Expansion Facilities. The costs shall be reimbursed by City as set forth in Section 10.2; however,

in order for costs incurred by District to be reimbursed by City, the costs must be either included as Sunk Costs identified in Exhibit A or approved by City. Separate approval shall not be required as to costs approved as a part of a Project milestone as provided in Sections 18.3 and 18.4. Any cost not approved by City shall be subject to further review in the manner provided in Section 18.6. As also indicated on Exhibit A, City has also advanced a portion of Sunk Costs.

10.2. Reimbursement. Upon Termination, City shall reimburse District for all Sunk Costs and Advances not previously reimbursed or incorporated into a Financing, unless the Parties agree otherwise. In the event of a Termination of the First Expansion Facilities pursuant to Section 22.2, and the Parties abandon the First Expansion Facilities, City shall not be required to reimburse District pursuant to this Section 10.2. If the Project proceeds to Financing, reimbursement of Sunk Costs and Advances to District and reimbursement of Sunk Costs to City shall be included in the principal amount of the financed obligation. District and City shall be reimbursed for Sunk Costs and District shall be reimbursed for Advances from the proceeds of the Financing.

10.3. Interest on Advances. Amounts advanced by the Parties pursuant to Section 10.1 shall bear interest at District Interest Rate until repaid.

10.4. Costs of Studies and Negotiation Borne by Each Party. Costs of studies conducted by either Party for its own purposes and costs associated with the preparation and negotiation of this Agreement or subsequent or other agreements between the Parties shall be borne by the Party incurring the costs and shall not be advanced pursuant to Section 10.1, nor reimbursed pursuant to Section 10.2.

11. DRAINAGE.

11.1. Responsibility. District shall not be responsible for any drainage pumping or facilities necessary to maintain water tables so as to avoid damage to structures and crops within the Service Area of City. City shall not be responsible for any drainage pumping or facilities necessary to maintain water tables so as to avoid damage to structures and crops outside the Service Area of City.

11.2. Indemnification. Each Party shall indemnify, protect, defend, and hold harmless the other Party, and its respective officers, directors, officials, employees, agents, and volunteers, from and against any and all liabilities, claims, damages, losses, judgments, penalties, costs or expenses (including attorney fees) arising from rising groundwater tables within the service area

of the indemnifying Party. For the purposes of this Section 11.2, District's service area shall be that portion of District lying outside of the Service Area of City.

12. RESERVE FUNDS.

12.1. Reserve and Contingency Fund. District shall continue to maintain a Reserve and Contingency Fund. The Initial Amount shall be \$500,000.

12.1.1. Additional Deposits to Reserve and Contingency Fund. If the balance in the Reserve and Contingency Fund shall fall below the Initial Amount as of the end of any Year, then the amount of the shortfall shall be added to the amount to be paid by City pursuant to Section 15 during the next ensuing Domestic Water Year.

12.1.2. Withdrawals From Reserve and Contingency Fund. The Reserve and Contingency Fund shall be subject to withdrawals by District for the following purposes:

12.1.2.A. Unbudgeted Items. The cost of (i) unbudgeted necessary repairs and replacements required to maintain the Project in good order in keeping with the standards evidenced by similar sized potable water treatment plants in Northern California and at all times able to produce Treated Water meeting the standards of Section 9.4; plus (ii) all unbudgeted Modifications.

12.1.2.B. Costs in Excess of Budget Amount. Costs, including, among other things, Fixed Costs and Debt Service, for the operation and maintenance of the Project, which exceed the funds available pursuant to Section 15 for any Period.

12.1.2.C. Budgeted Items. The cost of budgeted repairs, replacements, and Modifications if so agreed by all of the Parties.

12.1.3. Increase or Decrease in Reserve and Contingency Fund. From time to time, as a part of and subject to the budget process set forth in Section 18.7.2, District may, if experience reasonably indicates, increase or decrease the Initial Amount and in the event of an increase in the Initial Amount, provide for necessary additional payments by City during the next ensuing Domestic Water Year so as to increase the balance in the Reserve and Contingency Fund. In the event of a decrease in the Initial Amount, the excess balance in the Reserve and Contingency Fund shall be credited against payments due from City during the next Domestic Water Year.

12.1.4. Reserve and Contingency Fund Advances. If at any time because the Reserve and Contingency Fund is depleted or contains insufficient funds so that District must

advance funds which otherwise would be obtained from withdrawals from the Reserve and Contingency Fund under Section 12.1, then the aggregate amount of the advances during any Year and the amount necessary to replenish the Reserve and Contingency Fund to its established balance shall be added to the amount to be paid by City pursuant to Section 15 during the next ensuing Domestic Water Year. The amount of advances by District to the Reserve and Contingency Fund while outstanding shall bear interest at District Interest Rate. Funds received monthly by District by payments from City pursuant to this Section 12.1.4 shall be applied first to interest and then to the replenishment of the Reserve and Contingency Fund.

12.1.5. Interest on Reserve and Contingency Fund. Funds in the Reserve and Contingency Fund shall be invested by District and actual interest earned on the funds shall be credited to the Reserve and Contingency Fund.

12.1.6. Reports. District shall submit to the Technical Committee no less often than quarterly a report setting forth the current balance of the Reserve and Contingency Fund, income and expenditures from the Fund, and anticipated expenditures, if any during the remainder of the year.

12.2. Debt Service Reserve Fund. District shall establish and maintain a Debt Service Reserve Fund. There shall be deposited into the Debt Service Reserve Fund from the Fixed Financing, an amount equal to the Maximum Annual Debt Service. The Debt Service Reserve Fund shall be held by the Trustee. If the First Expansion Facilities proceed to Financing, then the amount of the Debt Service Reserve Fund under this section shall be increased by an amount equal to the Maximum Annual Debt Service for the Fixed Financing of the First Expansion Facilities. In the alternative, District may establish and maintain under this section a second, separate Debt Service Reserve Fund in this amount for the First Expansion Facilities.

12.2.1. Withdrawals From Debt Service Reserve Fund and Replenishment of Debt Service Reserve Fund. Withdrawals from the Debt Service Reserve Fund shall only be made for the purpose of making current payments of Debt Service obligations. If any such withdrawal is made from the Debt Service Reserve Fund, due at any time that funds available under the provisions of Section 15 and/or Section 12.1 are insufficient to meet current Debt Service Reserve Fund, City shall pay pursuant to Section 14.1 and Section 15.1 that amount necessary to replenish the amount on deposit in the Debt Service Reserve Fund to an amount

equal to the Maximum Annual Debt Service no later than one year following such withdrawal from the Debt Service Reserve Fund.

12.2.2. Interest On Debt Service Reserve Fund. Funds in the Debt Service Reserve Fund held by the Trustee shall be invested by District and actual interest earned on the funds shall be credited annually as a part of each Year's budget to sums otherwise due from City pursuant to Section 15 after deducting from interest earnings any amounts which must by law be paid to the United States. It is anticipated that the Debt Service Reserve Fund will be invested in an investment vehicle such as Guaranteed Investment Contingent Fund or a state and local government securities fund.

12.2.3. Final Disposition. The balance on hand in the Debt Service Reserve Fund shall be applied to the final payment or payments of Debt Service.

12.2.4. No Duplication. To the extent the Financing documents provide for a Debt Service Reserve Fund, the provisions of the Financing documents shall prevail. In the event that any reserve requirements set forth in any Financing documents duplicate or parallel the requirements of this Section 12.2, it is agreed that in no event shall contributions to the Debt Service Reserve Fund and any similar fund exceed an aggregate amount equal to the Maximum Annual Debt Service.

13. FINANCING AND TAKE OR PAY PROVISION.

13.1 District to Arrange Financing, Take or Pay Provision, Excuse from Take or Pay. District, subject to Section 18.5, shall use its best efforts to arrange Financing for the construction of the First Expansion Facilities using bonds or other evidences of indebtedness or certificates of participation, which shall be secured in part by the provisions of this Agreement.

City shall pay the Fixed Costs and Debt Service of the Project whether or not the Project or any part of it is operating or operable or its output or capability is suspended, interrupted, interfered with, reduced or curtailed, or terminated in whole or in part except as excused below. The payments of Fixed Costs and Debt Service shall not be subject to reduction whether by offset, counterclaim, recoupment, or otherwise and shall not be conditioned upon the performance or nonperformance by either Party to any agreement or for any other cause or reason whatsoever. The "take or pay" obligation of City with respect to Debt Service shall commence at the time that Debt Service payments actually commence under the applicable Financing. The "take or pay" obligation of City with respect to Fixed Costs shall commence at

the time of the commencement of the Commercial Operation Phase, which shall occur at the end of the Test Period. City shall not be required to pay Debt Service or Fixed Costs if any of the following specific conditions shall occur:

13.1.1. Excuse, 50 Percent of Contracted Water Not Delivered. District for any reason other than Drought shall fail to deliver at least 50% of the Treated Water that City is scheduled to receive for any Domestic Water Year (as determined pursuant to sections 17.1 and 17.2 of the Agreement) for a Period in excess of 18 consecutive months. For purposes of this provision, the particular Domestic Water Year shall be that year in effect at the beginning of the 18-month term.

13.1.2. Excuse, 50 Percent of Water Supply. 50 percent or more of District's total annual water supply, as adjusted as provided in Section 17.2 shall be lost or unavailable for physical reasons beyond District's best efforts to control, other than Drought, for a Period in excess of 24 consecutive months.

13.1.3. Excuse, 80 Percent of Water Treatment Plant Destroyed. 80 percent or more of the water treatment plant, which is a part of the Project, shall be destroyed or disabled for a period in excess of 24 consecutive months.

13.2. New Period of Excuse. A new 18 month, and if applicable, 24 month Period, shall not commence for the purpose of Section 13.1 until a consecutive 12 month Period, during which at least 75 percent of the Treated Water which City is to receive pursuant to Sections 17.1 and 17.2 of this Agreement has been delivered, has passed.

14. PAYMENT FOR WATER BY CITY.

In exchange for District agreeing to make available to City Treated Water in the manner set forth in this Agreement, City shall pay each Domestic Water Year in equal monthly installments the sum of the items set forth below. The sum shall be calculated and paid to District as set forth in Section 15 regardless of the amount of Treated Water actually delivered to City, or, subject to the exceptions found in Section 13.1, whether any Treated Water is delivered. The sum to be paid shall be comprised of the following:

14.1. Debt Service. Debt Service, so long as there is outstanding indebtedness incurred by District in connection with the Project, plus the amounts, if any, necessary to replenish the Debt Service Reserve Fund pursuant to Section 12.2.1.

14.2. Raw Water Charge. District shall charge City for Raw Water at the same rate as District charges for water furnished by District to its agricultural water users. The Raw Water Charge shall be charged only for water actually delivered to the Water Treatment Plant. In setting the rates for Raw Water, District shall be guided by the following principles:

- (i) The economy of District is, to a great extent, dependent upon fair, reasonable, and economical irrigation water rates, and District, in setting such irrigation water rates shall be mindful of the impact that increases in water rates would have on agriculture and the economy of District.
- (ii) District shall not derive a profit from its Raw Water diverted to the Project.
- (iii) City shall be fully advised through the budget process set forth in Section 18.7 of the proposed water rates to be set by District.
- (iv) The rates established for Raw Water and water furnished to District's agricultural water users shall be adopted by the Board only after a public hearing for which at least ten days' notice has been given in writing to City.
- (v) Water rates shall be fair, reasonable, and economical as to both District's agricultural water users, and to City.

In order to observe the foregoing principles, it will be necessary to convert the agricultural water users supply to acre feet and the agricultural water users charge to a "per acre foot charge." The cost of Raw Water shall then be calculated as follows:

14.2.1. Agricultural Allocation in Acre Feet. District provides a water supply to its agricultural water users during each irrigation season. In some seasons, it is possible to allow irrigation water to each agricultural water user to the extent of demand. In other seasons it is found necessary by the Board to allocate, that is to reduce, the amount of water available to agricultural water users. When allocation is necessary it is the practice of the Board to announce, usually in March or April, the allocation for the season allowing a certain number of inches of water for the season for each agricultural acre to which agricultural water is provided. For the purposes of this Agreement, if no allocation of agricultural water is announced for any agricultural season, then the allocation for that season shall be presumed to be 42 inches. The

allocation for agricultural water for each irrigation season shall be converted to acre feet by taking the number of inches of water allocated and dividing by 12. In some Years the Board may provide for an allocation on an optional basis. For example, the Board may provide for a base supply of 33 inches of water for each agricultural acre at a charge of \$7.50 per acre with an option of up to another 12 inches for \$7.50 per acre with a limited option in certain cases for additional water at \$15.00 per acre-foot. Under such an allocation, a maximum allocation of 42 inches would be assumed and the allocation of 42 inches would be divided by 12 to obtain acre-feet.

14.2.2. Acre Foot Charge. Presently, District charges for water furnished to agricultural water users on a per acre basis; Raw Water furnished pursuant to this Agreement shall be charged on a per acre foot basis. Accordingly, the per acre charge for agricultural water set for each irrigation season by District shall then be divided by the number of acre feet derived pursuant to Section 14.2.1 and the result shall be the charge for each acre foot of Raw Water supplied to the Project for that irrigation season. In the event of an allocation similar to the example, as described in Section 14.2.1, the first 33 inches would be divided by 12 and the quotient would be divided into \$7.50. The remaining nine inches of the total of 42 inches would be divided by 12 and would be charged at the rate of \$7.50 per acre-foot.

14.2.3. Irrigation Season not Concurrent with Year. Each irrigation season, depending upon need, commences at some time after the beginning of each Year. Thus, two Raw Water rates may be applicable for portions of each Year; the actual Raw Water charges for each Year shall be calculated accordingly.

14.2.4. Raw Water Charge not Applicable. Treated Water delivered in exchange for groundwater delivered to District irrigation canals pursuant to Section 9.8 shall be subject to the same costs as all other Treated Water except there shall be no charge for Raw Water provided for in this Section 14.2.

14.2.5. Change in Method for Charging for Agricultural Water. In the event that District adopts a new method of charging for, or allocating, agricultural water, the Parties shall agree upon a new method of calculating the Raw Water charge devised so that the Project shall bear the same cost per acre foot as is borne by the agricultural water users of District.

14.2.6. Measurement of Raw Water. Raw Water shall be measured at its point of entry into the MRWTP.

14.3. Operation and Maintenance Costs. The actual operation, maintenance, repair, replacement, and Modification costs directly attributable to the operation of the Project for the Year, less sums drawn against the Reserve and Contingency Fund pursuant to Section 12.1.2, except any sum drawn against the Reserve and Contingency Fund for Debt Service. It is agreed that no item for depreciation shall be included in the sums calculated and paid pursuant to this Section 14 and Section 15.

14.4. Administrative Services. An amount equal to the reasonable actual cost of administrative services fairly attributable to the operation of the Project and the administration of this Agreement including, but not limited to, legal, accounting, and consulting engineering services, and the actual cost of paying agents or other services which District requires in processing and making payments to the holders of indebtedness incurred by District in connection with the Project.

14.5. Insurance. The actual cost of all insurance required by this Agreement to be maintained by District.

14.6. Electric Energy. The cost of electric energy provided to the Project. Electric energy will be provided by District. District shall charge the Project, from time to time, consistent with District policy as to use and applicable rate structure and cost the same as would be charged to District itself.

14.7. Other Payments and Costs and Deductions From Payments and Costs. The amount of payments or costs and deductions from payments or costs specified by Sections 12.1.1, 12.1.3, 12.1.4, and 12.2.2, and 16.3.2.

14.8. Payments by City to District for Raw Water Only. To assist District in planning its budget, City will pay District on an annual Domestic Water Year basis in accordance with the following:

1. City shall estimate and provide its estimate to District no later than thirty (30) days prior to the commencement of each Domestic Water Year, its anticipated usage of Treated Water.
2. District shall multiply the raw water charge determined in accordance with Section 14.2, above, by City's estimate to obtain a total estimated annual Raw Water Charge to City for budget planning purposes.

3. At the end of each Domestic Water Year, District shall calculate City's actual total Raw Water Charge in accordance with Section 14.2 of this Agreement, based on actual Raw Water used and use this cost for calculation of City's payments pursuant to Sections 15.3 and 15.4.

14.9. First Expansion Facilities. Upon completion of the First Expansion Facilities (as evidenced by the Commercial Operation Date), the application of the billing and payment provisions in this section shall be modified to provide for billing and payment to include the operation and maintenance of the First Expansion Facilities.

15. TIME AND MANNER OF PAYMENT BY CITY TO DISTRICT.

15.1. Monthly Payments. Payment of the total sum due for each Year pursuant to Section 14 shall be as set forth in this Section 15. Each monthly payment to be made pursuant to this Section 15 shall be made on the first day of each month.

15.2. Proration. Any payment made pursuant to this Agreement which covers less than a full month or which covers less than a Year shall be prorated accordingly.

15.3. Calculation of Monthly Payments. Prior to December 31 of each Year, District shall prepare and adopt a budget for the forthcoming Year pursuant to section 18.7 of this Agreement. The budget shall include all of the items listed in section 14. The budget for a Year shall determine and set forth a monthly payment amount to be made by City which shall be the net amount of budgeted expenses for the Year, less any refunds or credits allowed to District in connection with the Project pursuant to the Agreement, divided by 12. Each Year, the new monthly payment calculated as provided in this section 15.3 shall take effect at the beginning of the next ensuing Domestic Water Year (i.e., the new monthly payment for a Year shall take effect on May 1 of that Year). Regarding the First Expansion Facilities, (a) the budget and City payments shall be increased to include Debt Service for the First Expansion Facilities Financing for the Year in which the Debt Service payments for such Financing become due, and (b) the budget and City payments shall be increased to include the other expense items for the First Expansion Facilities listed in section 14 after the Commercial Operation Date for the First Expansion Facilities.

At the conclusion of each Year, District shall prepare an accounting of the actual expenses for the Year as compared with the Year's budget and City payments for the Year, and determine whether City made overpayments or underpayments for the Year based on the actual

City payments compared to actual expenses. City shall pay the amount of any underpayment for a Year in a lump sum payment to District. District shall pay the amount of any overpayment for the Year in a lump sum payment to City. The amount of any such overpayment or underpayment shall be reflected in the first invoice for the Domestic Water Year immediately following the completion of the accounting, and shall be due and payable at the time payment of such invoice is due and payable.

15.4 Late Payments. Any amounts owed by one Party to the other Party under this Agreement that is not paid in full when due shall thereafter bear interest at the rate of 1% per month of the unpaid balance, or at the maximum lawful rate, whichever is less.

16. GENERAL PAYMENT PROVISIONS.

16.1. Percentages. [Not Used].

16.2. Records. District shall (i) keep and maintain and provide to City detailed cost accounting reports documenting the Project costs, (ii) keep and maintain separate accounting and bookkeeping records with a separate account and fund for the Project, and (iii) allow City and its employees, accountants, attorneys and agents to review, inspect, copy and audit the accounting and bookkeeping records of District, including all source documents. District shall have the right to review, inspect, copy, and audit all accounting and bookkeeping records of City, including all source documents, as may pertain to the receipt, delivery, and sale of water received from the Project.

16.3. Security for Payment, Rate Covenant by City. Prior to obtaining the Financing for the First Expansion Facilities as set forth in Section 13.1, District shall be entitled to the assurances it may reasonably deem necessary, and be entitled to the financial information as may be necessary, to ascertain that City is in the financial condition as will allow it to fulfill its financial commitments to the First Expansion Facilities.

16.3.1. [Not Used]

16.3.2. Security from City. City's security obligation pursuant to this Section 16.3 shall be satisfied by the following rate covenant and pledge of City Gross Water Revenues which shall be effective and binding upon City upon the execution of this Agreement by the Parties:

16.3.2.A. Rates and Charges. City shall fix, prescribe, and collect water rates and charges which shall be at least sufficient to yield City Gross Water Revenues during

each fiscal year of City in an amount equal to: (i) the payment obligations of City under this Agreement during the fiscal year other than Debt Service; (ii) City maintenance and operations costs to the extent not included in clause (i) above; plus (iii) one hundred twenty-five percent (125%) of the Debt Service to be paid during the fiscal year.

16.3.2.B. Pledge. All City Gross Water Revenue and all money on deposit in the funds established by this Agreement are hereby irrevocably pledged to the punctual payment of the interest on and principal of and redemption premiums if anyone the obligations evidencing the Financing and all obligations of City under any Parity Debt. This pledge shall constitute a lien on and security interest in City Gross Water Revenues and funds established by this Agreement and shall attach, be perfected, and be valid and binding from and after the consummation of the Financing or the issuance of Parity Debt, without any physical delivery thereof or further act. If City gives any additional collateral to secure the payment of the Financing, City agrees that such collateral shall also secure all obligations of City under any Parity Debt on a pari passu basis.

16.3.2.C. Similar Covenant. City hereby covenants and agrees that it shall require a covenant substantially similar to clauses (i), (ii), and (iii) of Section 16.3.2.A with respect to all Parity Debt.

16.3.2.D. Parity Debt. In addition to its obligations hereunder, City may issue or incur Parity Debt in such principal amount as shall be determined by City in accordance with Section 16.3.2.C.

16.3.2.E. Subordinated Debt. In addition to its obligations hereunder, City may issue or incur loans, bonds, notes, advances or indebtedness payable from City Gross Water Revenues on a junior and subordinated basis with its obligations hereunder in such principal amount as shall be determined by City.

16.3.2.F. Amendment To Obtain Financing. This Section 16.3.2 may be amended from time to time by the Parties to the extent necessary to obtain the Financing as set forth in Section 13.1 and, after the Financing is obtained and so long as it remains unpaid, may only be amended in accordance with the terms and conditions of the legal documents for the Financing.

16.3.2.G. Alternative Security. City may be relieved from its obligation to perform any of the covenants set forth in this Section 16.3.2 by providing to District for

deposit with Trustee a policy of municipal bond insurance, irrevocable letter of credit, surety bond or similar credit facility assuring payment of Debt Service due and payable by City pursuant to this Agreement, and which is acceptable to District and Trustee in accordance with the terms and conditions of the Financing.

17. DELIVERY OF WATER.

17.1. Water Supply to City. Subject to Sections 4.41 and 17.2, District shall make available to City an amount of Treated Water equal to 30 million gallons per day. District shall consult with City on a regular basis during the Commercial Operation Phase to determine the schedule of deliveries, and, consistent with the terms of this Agreement, District shall use its best efforts to meet the requirements of City. Notwithstanding any other provision of this Agreement, in a Drought situation the delivery of surface water by District for agricultural uses to its agricultural customers and for municipal uses to City shall be reduced in equal proportions in accordance with the formula in Section 17.2.

Upon completion of the First Expansion Facilities (as evidenced by the Commercial Operation Date), the Treated Water quantities as set forth in sections 17.1 to 17.7 shall be changed from 33,602.1 acre-feet per year and 30 million gallons per day to 67,204.2 acre-feet per year and 60 million gallons per day.

District promises and agrees to treat District's agricultural customers and City on a parity basis. If District is required to reduce deliveries, it will cut back its deliveries to its agricultural customers and to City in equal proportions. In keeping with the foregoing, District agrees that its commitments to its agricultural customers and to City shall be met before any subsequent water transfers for delivery of water outside District's boundaries. It must be understood, however, that "transfers" between District and Turlock Irrigation District made in the ordinary course of operations are not included in the foregoing, as District and Turlock Irrigation District regularly deliver water to each other in the interest of maximizing beneficial use of their water rights and facilities.

17.2. Formula for Water Allocation. During each Domestic Water Year, District shall make available to City 33,602.1 acre feet of Treated Water provided that the allocation of City shall be reduced in any Domestic Water Year that the following calculation results in a sum less than 33,602.1 acre feet:

$$(Y/42) \times 33,602.1 = X$$

"Y" shall be the actual number of inches of water allocated by the Board to agricultural water users for the subject irrigation season commencing immediately prior to each Domestic Water Year. In the event a portion of the water allocation is optional as in 1991 as described in Section 14.2.1 and the fixed and optional amounts equal or exceed 42 inches, then City shall be assumed to have exercised the available option up to a total of 42 inches for the purposes of the above calculation. If no allocation is made for any irrigation season, the allocation shall be presumed to be 42 inches. The actual maximum Treated Water allocation of City for the subject Domestic Water Year shall be 33,602.1 acre feet of Treated Water or the amount calculated as "X" in the above formula, whichever is less. It is anticipated that from time to time District may modify its current agricultural water allocation. When District makes changes in its agricultural water allocation that result in the above allocation formula no longer ensuring that reductions or increases in available water are in equal proportions as between District's agricultural customers and City, subject to the limitation of 33,602.1 acre feet of Treated Water, the Parties shall meet and confer and agree upon necessary changes in the above allocation formula so as to ensure that reductions and increases in available water are in equal proportions as between District's agricultural customers and City.

Except as provided in Section 17.3, in no event shall District be required to make available to City, more than 33,602.1 acre feet of Treated Water for First Expansion Facilities during any Domestic Water Year. If the applicable formula during any Domestic Water Year provides for an annual allocation of less than 33,602.1 acre feet, there shall be no suspension in the payment obligations of City, set forth in Section 14, regardless of the length of the Period during which deliveries of Treated Water shall be less than 33,602.1 acre feet for each Domestic Water Year. Nothing contained in this Section 17.2 shall be deemed to modify in any way District's right to suspend, curtail, or reduce water deliveries as provided in Section 9.9 and in this Section 17.2. Nothing in this Agreement shall be construed to require District to curtail deliveries of water during any Period.

17.3. Treated Water Delivery Schedule. The parties acknowledge that City's water needs vary throughout the Domestic Water Year with high peak day demands in summer and lower demands in winter. City shall have the right to specify, on a daily basis, its water delivery requirement for the following day (or longer period of time as agreed between the parties) and

District shall be obliged, subject to its engineering, operating, maintenance, regulatory, safety and other practical requirements, to make a good faith effort to meet the daily (or longer period) demands specified by City.

17.4. Adjustment of Curtailment. In the event that a severe and prolonged drought threatens the ability of City to deliver adequate drinking water to its customers despite its efforts to impose rationing and to utilize all water resources available to it, the Parties shall meet and confer to determine whether, and upon what terms, water allocations other than those provided for in this Agreement could be implemented which would alleviate hardships to the customers of City without unduly or disproportionately injuring agriculture. In the event that water deliveries during a Domestic Water Year must be curtailed pursuant to Section 17.2, for the reasons set forth in the preceding sentence or for any other reason, the Parties shall meet and confer for the purpose of reaching an agreement as to an alternative curtailment formula or water allocation basis which more equitably and more fairly meets the then current needs of the agricultural and municipal water users within District's boundaries. The Parties shall also endeavor to reach agreement upon other terms and conditions necessary to implement an agreement. The duration of an adjustment agreement shall be specified in the agreement. In the event that no agreement can be reached, the deliveries shall be curtailed in accordance with the formula set forth in Section 17.2 of this Agreement.

17.5. Exchange for Groundwater. During a Domestic Water Year in which City's allocation is reduced below 33,602.1 acre feet of Treated Water, City shall continue to have the option to deliver groundwater to the irrigation canal system in exchange for additional surface water as provided by Section 9.8.

17.6. Water to Remain in District's Irrigation District Boundary. No Treated Water delivered by District to City, not offset by City groundwater and City water supplies other than the Treated Water within District's Irrigation Boundary, shall be allowed to flow outside District's Irrigation District Boundary. In order to demonstrate and ensure compliance with this Section 17.6, City shall install and maintain meters to monitor flow and usage at appropriate locations on its water delivery systems to determine (i) the amount of all Other City Water delivered to the Service Area, and (ii) the amount of all water (whether Treated Water or Other City Water) transported outside District's Irrigation District Boundary. City shall monitor these records to ensure that the amount recorded under (i) is at all times greater than or equal to the

amount recorded under (ii). City shall maintain records as to the items set forth above in this Section 17.6 which records shall be open to reasonable inspection by District, and its officers, directors, officials, employees, agents, and volunteers. A monthly summary of the applicable records shall be provided to District by City .

17.7. Conjunctive Use. It is understood by the Parties that from time to time water allocations for a Domestic Water Year to City may be reduced below 33,602.1 acre feet by the application of the formula set forth in Section 17.2. Accordingly, City shall exert its best efforts to maintain, in its judgment, reasonable groundwater pumping capacity to meet the needs of its Service Area during times of reduced surface water allocations. City's obligation to maintain reasonable groundwater pumping capacity shall be subject to the constraints of the groundwater basin underlying City as described in the Urban Water Management Plan and other City records, and City's obligation shall be subject to what is feasible and cost-effective.

18. PROJECT MANAGEMENT.

18.1. District's Board of Directors.

18.1.1. Final Decisions. Subject to the Approvals set forth in Section 18.3 and Section 18.5 and subject to the review set forth in Section 18.5 and Section 18.6, the Board shall be the final decision making authority with regard to the Project. The Board shall consider the recommendations of the Project Manager. All Board decisions shall be made at duly noticed regular meetings or special meetings.

18.1.2. Project Manager. The Board shall appoint a Project Manager, who shall perform those duties set forth in Section 18.2.

18.2. Duties of Project Manager.

18.2.1. Implementation of this Agreement. The responsibility for implementing and administering this Agreement and for carrying out the tasks necessary for the successful completion of each of the Phases of the First Expansion Facilities shall be vested in the Project Manager.

18.2.2. Notice to Advisory Committees. The Project Manager, in the course of fulfilling his responsibilities, shall provide the Advisory Committees reasonable advance notice of impending major decisions as defined in Section 18.6.1.C.

18.2.3. Specific Duties. The Project Manager shall have the following powers, duties, and responsibilities:

18.2.3.A. Work Plans. Developing a work plan for each Phase of the Project.

18.2.3.B. Progress Reports. Submitting periodic progress reports to the Parties and to the Board.

18.2.3.C. Administering Contracts. Administering this Agreement and any contracts as are entered into pursuant to this Agreement.

18.2.3.D. Public Information. Serving as public information officer for the Project.

18.2.3.E. Recommending Consultants. Recommending the hiring or utilization of consultants, engineers, contractors, attorneys, underwriters, and other services necessary to carry out the Project.

18.2.3.F. Financial Report. Preparing an annual financial report within three months of the end of each Year of the operation of the Project for review by the Advisory Committees. The annual financial report shall include the amount of water delivered by District to its agricultural customers and to City during the preceding Year. To the extent permitted by data available at the time of preparation of the report, the report shall also include estimates of the amount of water which will be available during the current Year for delivery to the agricultural water users of District and to City. In the event that during the Year changed water conditions modify the projections of the availability of water to District's customers, the Project Manager shall promptly notify the Advisory Committees.

18.2.3.G. Emergency Plans. Developing emergency plans for dealing with reasonably anticipated events of force majeure so as to minimize, to the extent practical, the interruption or curtailment of the operation of the Project and, to the extent practical, ensure the continued delivery of Treated Water to City.

18.2.3.H. Other Duties. Other duties as are necessary and proper to carry out the Project.

18.3. City Approval of First Expansion Facilities Milestones. Since City will be paying virtually all costs associated with design, construction, operation, maintenance, repair, reconstruction, and Modifications of and to the First Expansion Facilities, the Parties agree and consent that City shall have the authority to approve or disapprove major First Expansion Facilities milestones as follows:

18.3.1. Engineering Services. Prior to District's approval of any engineering services contract concerning the design and engineering of the First Expansion Facilities, City shall review the contract or contracts and each shall provide District with written authorization to proceed.

18.3.2. Review of Preliminary Design. Prior to proceeding with the final Design Phase under an engineering services contract, City shall review the preliminary design plans and preliminary cost estimate and each shall provide District with its written authorization to proceed.

18.3.3. Acceptance of Final Design. Prior to accepting the final design work, including construction ready final plans and specifications and final cost estimate, City shall review the final design work and cost estimate and shall provide District with its written authorization to proceed.

18.3.4. Construction Contracts. Prior to District's approval of a construction contract or contracts for the construction of the First Expansion Facilities, City shall review the construction contract documents and shall provide District with its written authorization to proceed.

18.4. Processing Milestone Approvals. City shall act promptly in giving or refusing to give any of the written authorizations to proceed as set forth above. The written authorizations to proceed to be given by City shall not be unreasonably withheld. If City fails to provide its written authorization to proceed, or written refusal of authorization, within 45 days from the date of the written request for authorization from District, then City shall be deemed to have authorized District to proceed with the milestone in question. If City refuses to authorize any of the foregoing Project milestones, it shall set forth in writing its reason or reasons for the refusal and shall timely provide the writing to the other Party. Thereafter either (i) District shall work to address and resolve City's concerns and then re-request the written authorization to proceed for the particular Project milestone, or (ii) either Party may terminate the First Expansion Facilities pursuant to Section 22.2.

18.5. Project Financing Approvals. Prior to issuing bonds or other evidences of indebtedness or certificates of participation for the purpose of Financing the First Expansion Facilities, District shall give written notice to City that the time to commence Financing has arrived. Within 30 days of the notice, the Finance Committee shall meet and confer at least once

and within 60 days of the notice City shall advise District in writing as to whether Fixed Financing or Variable Financing shall be used. If City advises in writing that Fixed Financing is to be used or fail to give their written advice within 60 days of the notice, the Fixed Financing shall be used.

18.5.1. Fixed Financing. If Fixed Financing is to be used, District shall give written notice to City that Fixed Financing is to be used and shall request that City give to District a not-to-exceed TIC within 30 days of the notice and request. Within 15 days of the notice and request by District, the Finance Committee shall meet at least once. Upon receipt of a not-to-exceed TIC from City, District shall thereafter be responsible for marketing the Financing subject to the not-to-exceed TIC approved by City. The members of the Finance Committee shall be present at the time and place of marketing and they and their financial advisers shall consult with the persons responsible for the marketing for District and the terms and conditions of the Financing, but all final decisions shall be made by District, provided that the TIC of the issue is (i) the lowest then available, and (ii) at or below the not-to-exceed TIC approved by City. In the event City fails to approve a not-to-exceed TIC within 30 days of the notice from District that Fixed Financing is to be used, then the Parties shall seek to reach agreement as to a not-to-exceed TIC or either Party may terminate the First Expansion Facilities pursuant to Section 22.2. It is understood that bond insurance shall be used with Fixed Financing if, when the cost of bond insurance premiums is included in Debt Service, the result is the lowest Fixed Financing alternative available at the time of Fixed Financing.

18.5.2. Variable Financing. Variable Financing shall be used only during the Construction Phase, except as otherwise provided herein. If City agrees that Variable Financing should be undertaken, District shall issue Variable Financing for the duration of the Construction Phase. No later than 60 days after the Commercial Operation Date, the Variable Financing shall be replaced entirely by Fixed Financing unless the Parties unanimously agree to the contrary. It is understood that Variable Financing may require the use of a letter of credit and, if that is the case, the cost of the letter of credit shall be financed out of the Variable Financing.

18.5.2.A. Initial Financing. Variable Financing shall initially be issued in the maturities and at the interest rates as, in the judgment of District after consulting with the Finance Committee, provides the most cost-effective combination of maturities and interest rates.

Thereafter, as the securities mature, District shall be solely responsible for the remarketing of the securities until the Issuance of the Fixed Financing.

18.5.2.B. Conversion During Construction Phase. If Variable Financing is issued for the First Expansion Facilities, City may, during the Construction Phase, request that District convert the Variable Financing to Fixed Financing. The request may be conditioned upon the ability of District to secure the Fixed Financing at a TIC specified in City's request.

18.5.2.C. Conversion Upon Commercial Operation. If no request to convert Variable Financing to Fixed Financing has been made prior to the Commercial Operation Date, District shall convert the Variable Financing to Fixed Financing on the Commercial Operation Date, or within 60 days thereafter without regard to the provisions of Section 18.5.1, provided, however, that District shall consult with the Finance Committee during the time it is converting the Variable Financing to Fixed Financing unless the Parties unanimously agree to the contrary.

18.6. Advisory Committees. In order to assist District and the Project Manager with the implementation of the Project, the following committees are formed and shall have the following duties, responsibilities, and authority:

18.6.1. Policy Committee. A Policy Committee consisting of two City Council members and two members of the Board. The Policy Committee shall meet at least twice each Year, and at other times when a meeting is called by the Project Manager. Each member of the Policy Committee shall serve at the pleasure of the Party selecting that member. The Policy Committee shall function during all three Phases, and shall have the following responsibilities and authority:

18.6.1.A. First Expansion Facilities Milestones. To review and make recommendations to City concerning the request for authorization to proceed with First Expansion Facilities milestones pursuant to Section 18.3. District and the Project Manager shall not request written authorization to proceed with any of the First Expansion Facilities milestones until after the Policy Committee has reviewed the proposal and made a recommendation to City.

18.6.1.B. Budget Functions. To perform the functions with respect to District budget for the Project as set forth in Section 18.7. All expenditures of District concerning the Project shall be consistent with the approved budget.

18.6.1.C. Major Decisions and Design Changes (In Excess of \$100,000).

To review and advise District and the Project Manager concerning major decisions or changes in the Project or design of the First Expansion Facilities. A major decision shall be defined as any contract, change order, purchase, change in policy, or any other action with an estimated cost in excess of \$100,000. A major change in the design of the First Expansion Facilities shall be defined as any change involving an estimated increase or decrease in the cost of the First Expansion Facilities in excess of \$100,000. A major decision shall not include any budgeted expenditure in a budget that has been approved pursuant to Section 18.7.

18.6.2. Technical Committee. A Technical Committee, consisting of one staff person appointed by each Party, and one alternate member as each Party deems necessary. Each member of the Technical Committee shall serve at the pleasure of the Party selecting that member. The Technical Committee shall meet at least once each month, and at all other times as requested by the Project Manager. During the Construction Phase of the Project, the Technical Committee shall meet once a month. If additional meetings are required, any of the parties, with five days prior notice, may schedule a Technical Committee meeting. The Technical Committee shall function during all three Phases of the Project, and shall have the following responsibilities and authority:

18.6.2.A. Consultation With Project Manager. To advise and consult with the Project Manager and District, to exchange information, and to make any necessary recommendations relating to the Project design, construction, operation, and maintenance. The Project Manager shall, from time to time, inform the Technical Committee of any material event, incident, occurrence, or condition that the Project Manager anticipates may impair District's ability to perform its obligations under this Agreement, including, but not limited to, labor disputes and threatened or pending litigation.

18.6.2.B. Recommendations to Policy Committee. To review and make recommendations to the Policy Committee for all matters within the scope of authority and responsibility of the Policy Committee.

18.6.2.C. Advice Relative to Minor Decisions (\$5,000 to \$100,000). To review and advise the Project Manager concerning any minor decision affecting the Project. A minor decision shall be defined as any contract, change order, purchase, change in policy, or any other action with an estimated cost between \$5,000 and \$100,000, and any action involving

changes in Treated Water quality beyond the range of normal plant operation variability. A major decision shall not include any budgeted expenditure in a budget that has been approved pursuant to Section 18.7.

18.7. Budget.

18.7.1. Budget Principles. In preparing and reviewing budgets for the Project, the Parties shall be guided by the principle that the Project shall be operated in as economic a manner as practical in accordance with generally accepted waterworks practices as evidenced by well designed and operated similar sized potable water treatment plants in Northern California.

18.7.2. Budget Process.

18.7.2.A. Preparation. For each Year during the Commercial Operation Phase, District shall prepare a budget for the Project prior to December 31 for the next ensuing Year. All Project budgets shall include both operating and capital components and shall include a monthly payment to be paid during the next ensuing Domestic Water Year in accordance with Sections 14 and 15. Upon completion of the First Expansion Facilities (as evidenced by the Commercial Operation Date), the budget shall be expanded to include the First Expansion Facilities costs and the increased Treated Water allocation of 67,204.2 acre-feet per year.

18.7.2.B. Technical Committee Review and Recommendation. Prior to completion of the first administrative draft of each Year's budget by District, the Project Manager shall meet with the Technical Committee at least once to discuss and receive input from the Committee concerning development of the budget. Prior to submission of the budget to the Policy Committee, the Technical Committee may make a recommendation with respect to the budget to the Policy Committee. Upon completion of the first administrative draft of a Year's budget and not later than September 15 of each Year, the Project Manager shall forthwith furnish it to the members of the Technical Committee. Within 15 days of receipt of the draft budget, the Technical Committee members may individually or collectively submit to the Project Manager their recommendations and/or comments regarding draft budget. The documents shall not be mailed to City as provided in Section 18.7.2.C until after the expiration of this 15 day Period.

18.7.2.C. Information to City. At least 10 days before the mailing of the annual budget to City as provided in this Section 18.7.2.C, the Project Manager shall mail copies of the budget to the Technical Committee and during the 10 day Period the Project Manager shall arrange at least one meeting of the Technical Committee for review of the budget. After the

expiration of the above 10 day Period and at least 20 days before the submission of each annual budget to District Board, the Project Manager shall mail to City copies of the proposed budget for the ensuing Year and a detailed calculation of the proposed monthly payment obligations of City for the ensuing Domestic Water Year calculated pursuant to Section 15.3 of this Agreement. Commencing after the first Year of operation, the Project Manager shall also at the same time mail copies of the most recent update of the current Year's expenditures and revenues, and the balance sheet and income statement for the most recent Year, if available.

18.7.2.D. Policy Committee Review. Approximately 10 days before the submission of the budget to District Board, the Policy Committee shall meet to review and discuss the proposed budget for the ensuing Year. District staff at this meeting shall explain and justify the need for all of the various budget items and proposed expenditures. At this meeting, the Parties shall strive to agree upon a budget for the ensuing Year.

18.7.2.E. Consideration of Budget by Policy Committee. The budget shall be deemed approved by the Policy Committee unless, at the meeting, the Committee by an affirmative vote of at least two members of the Committee objects to one or more of the budget items. If the Policy Committee objects to one or more budget items, the Committee members objecting shall specify the item or items of the budget which are objectionable, and why the item or items are objectionable.

18.7.2.F. Revision of Budget, Alternate Budget and Report. If one or more budget items are objected to by the Policy Committee, District shall either (i) revise the budget at the Policy Committee meeting so that it is acceptable to at least three members of the Policy Committee, (ii) continue the Policy Committee meeting and thereafter consider the objections raised at the meeting and prepare a revised budget for consideration by the Policy Committee at a subsequent meeting, or (iii) District may determine to submit the budget to District Board over the objections of the Policy Committee. In the latter event, District shall give written notice to the Policy Committee, and the Policy Committee may, within 10 days after receipt of this notice, submit an alternative to the objectionable budget item or items to District Board to be considered along with the budget submitted by District. The alternative budget item or items shall be accompanied report as to the reasons the alternate budget should be adopted in place of the budget submitted by District.

18.7.3 Public Hearing. The annual budget for the Project shall be adopted by the Board only after a public hearing for which ten days' notice has been given by publication in a newspaper of general circulation published and circulated within District. The period of notice commences on the first day of publication and terminates on the 10th day following, including the day of publication.

18.7.4. Appearance at Hearing. The foregoing provisions on review concerning the budget are not intended to, and shall not, preclude City, and its officers, , officials, employees, agents, and volunteers, from appearing before District Board regarding the proposed budget.

18.7.5. Increase. If, during the course of any Year, District proposes to make any budget increase, then the provisions of Sections 18.7.1 through 18.7.2.F concerning review of budgets shall apply to the budget increase.

19. LIABILITY AND INSURANCE.

19.1. Insurance, General. During all Phases of the Project, District shall procure and maintain Project Insurance, including coverage for the construction, operation, and maintenance of the Project, and all operation and activities concerning all Phases of the Project. Such Project insurance coverage shall be primary insurance coverage for all claims related to this Project and City shall be named as an additional insured. Any insurance or self insurance maintained by City, District or their respective directors, officers, officials, employees, agents or volunteers shall be excess of the Project insurance and shall not contribute with it.

19.1.1. Project General Liability. Project General Liability insurance in an amount not less than \$1,000,000 per occurrence, combined single limit for bodily injury and property damage, \$3,000,000 aggregate.

19.1.2. Commercial Automobile Liability Insurance. Commercial Automobile Liability insurance including, as applicable, owned, non-owned and hired automobiles, in an amount not less than \$1,000,000 per occurrence combined single limit for bodily injury and property damage.

19.1.3. Umbrella or Excess Liability Insurance. Umbrella or Excess Liability insurance in an amount not less than \$10,000,000 over and above the underlying limits with the Umbrella or Excess Liability policy containing insuring agreements, exclusions and conditions of coverage substantially similar to the underlying policies.

19.1.4. Workers' Compensation Insurance. Workers' Compensation Insurance as required by the State of California, including employer's liability limits of not less than \$1,000,000 per accident. All rights of subrogation against City, its officers, elected officials, officials, employees, and volunteers shall be waived by the insurer for losses arising from work performed by District. All costs for the waiver of subrogation shall be borne by the Project.

19.1.5 Property Insurance.

19.1.5.A. Course of Construction Insurance. District shall maintain this coverage in its insurance policy portfolio protecting the First Expansion Facilities.

19.1.5.B. Buildings and Equipment Insurance. Special form (all risks subject to approved exclusions) insurance for the Project shall be placed on a replacement cost basis, including the agreed amount or comparable endorsement, all buildings and structures comprising the Project and all fixtures, equipment, and facilities located in, on, or connected with the Project, excluding the pipeline and its associated equipment and fixtures. Such insurance shall include coverage for loss of use, loss of rents, or loss of financing payment. Loss payee under this policy mentioned in this Section 19.1.5.B shall be determined by the Financing documents.

19.1.6. Insurance Provisions. Each insurance policy required by this Agreement shall contain the following clauses:

19.1.6.A. Cancellation. This insurance shall not be cancelled, limited in scope or coverage or non-renewed until 30 days after prior written notice has been given to District and City. Upon receipt of a notice of cancellation of non-payment, District shall give City immediate notice of non-payment of any insurance policy premium required to maintain the insurance coverage required by this Agreement.

19.1.6.B. City to be Named. On all policies, City and its officers, elected officials, officials, employees, agents, and volunteers are to be covered as additional insureds as respects to claims or losses arising out of activities related to the Project. This additional insured requirement shall not apply to Workers' Compensation Insurance.

19.1.6.C. Special Limitations. No policy shall contain any special limitation as to the scope of protection afforded City or its officers, elected officials, officials, elected officials, employees, agents, and volunteers.

19.1.6.D. Approval by City. The policies of insurance required by this Agreement shall be issued by an insurer, or insurers, and shall be in a form approved by City, which approval shall not be unreasonably withheld. Any deductible, and/or self insured retention must be declared to City. District and City shall meet annually to review Project insurance and, if changes are necessary, make recommendations to the Technical Committee.

19.1.7. Insurance Provision in All Contracts. In any and all contracts entered into concerning the construction, operation, or maintenance of the Project, District shall include a provision requiring that the contractor and all of its subcontractors provide insurance protection in an amount agreed by City and District.

19.2. Indemnification and Hold Harmless.

19.2.1. Indemnification by District. Except as provided in Sections 19.3 through 19.6, District shall indemnify, defend, protect, and hold harmless City, and its officers, elected officials, officials, employees, agents, and volunteers from any and all liabilities, claims, damages, losses, judgments, penalties, costs, or expenses (including attorneys' fees) arising out of or relating to the performance of the Project caused in whole or in part by any negligent act or omission of District or contractors, any subcontractors, or anyone directly or indirectly employed by any of them or anyone for whose acts any of them may be liable, except where caused by the active negligence, sole negligence, or willful misconduct of City, its officers, officials, elected officials, employees and volunteers.

19.2.2. Cost of Litigation. Subject to the other provisions of this Agreement, the reasonable cost of the prosecution and defense of litigation and the payment of settlements or judgments in connection with litigation necessary to perform, or arising from, the construction, financing, operation, or maintenance of the Project by District shall be a cost of the Project.

19.2.3. Notification. District shall advise City in writing promptly as to any litigation the cost of which, including settlements or judgments, District proposes be a cost of the Project.

19.2.4. Objections. If City raises any objection in writing within 10 days of notification pursuant to Section 19.2.3 as to the cost of litigation being a cost of the Project, then the matter shall be subject to review by the Parties. In the event that City takes the position that the cost of particular litigation should not be an expense to be passed on to the Project or that only a portion of the cost of particular litigation should be an expense to be passed on to the

Project, then City Attorney, and the General Counsel of District shall meet and endeavor to reach an agreement relative to the sharing of the costs related to the particular litigation. If the attorneys are unable to promptly come to an agreement, the issue shall be submitted to the Chief Executive Officers. If the Chief Executive Officers are unable to promptly come to an agreement, the Parties shall promptly agree upon an independent attorney or retired judge to determine the matter. If the Parties cannot, within thirty (30) days of the dispute first arising, agree upon a decision relative to the dispute or an independent attorney or retired judge to determine the matter, any Party may request the American Arbitration Association to appoint an independent attorney or retired judge. For purposes of calculating the foregoing 30 day period, the dispute shall be deemed to have arisen on the day City gave notice to District of an objection pursuant to this Section 19.2.4. Upon appointment, the independent attorney or retired judge shall promptly decide the dispute based upon whether the litigation involved is necessary to perform, or arises from, the construction, financing, operation, or maintenance of the Project by District.

19.3. Third Party Claims Not Covered by Insurance; Willful. With respect to claims and lawsuits against one or more of the Parties by third parties concerning injury, death, property damage, or construction claims resulting from the construction, operation or maintenance of the Project, which claims and lawsuits are not covered by insurance, including self insurance, maintained by District pursuant to Section 19.1, and which are the result of willful misconduct, intentional tort, or gross negligence of one of the Parties, the Party whose willful misconduct, intentional tort, or gross negligence resulted in the damage claimed by the third party shall indemnify, defend, protect, and hold harmless the other Party, and its respective officers, elected officials, officials, employees, agents, and volunteers from any and all liabilities, claims, damages, losses, judgments, penalties, costs, or expenses (including attorneys' fees) resulting from a claim or lawsuit by a third party. This Section 19.3 shall not apply if the lack of insurance coverage is because of a denial of coverage based on District's failure to comply with any claim reporting requirement of any applicable insurance.

19.4. Third Party Claims Not Covered by Insurance; Ordinary. With respect to claims and lawsuits against one or more of the Parties by third parties concerning injury, death, or property damage resulting from the construction, operation or maintenance of the Project, which claims and lawsuits are not covered by insurance, including self insurance, maintained by

District pursuant to Section 19.1, and which are not the result of willful misconduct, intentional tort, or gross negligence of one of the Parties, District shall defend the claim or lawsuit on behalf of either or both of the Parties to this Agreement which are named in the claim or lawsuit, and District shall pay any settlement entered into by District or judgment entered against District or City. City shall reimburse District for its defense costs (including attorneys' fees and litigation expenses), settlement and judgment amounts incurred pursuant to this provision, in accordance with their respective percentage obligations to reimburse all Project costs pursuant to this Agreement, provided, however, that City shall not be obligated to pay any settlement of any Project related claim unless City approves the settlement. This Section 19.4 shall not apply if the lack of insurance coverage is because of a denial of coverage based upon District's failure to comply with any claim reporting requirement of any applicable insurance.

19.5. Claims Between Parties. With respect to claims and lawsuits by one of the Parties against the other, the claims and lawsuits shall be processed and resolved in accordance with (i) the Tort Claims Act and/or (ii) breach of contract remedies provided by this Agreement, or applicable law. Nothing in this Agreement shall relieve either Party of any contractual liability or duty imposed by this Agreement.

19.6. Workers' Compensation Claims. Each Party shall bear the costs of discharging all liability imposed, including costs and expenses for attorneys' fees and other costs of defending, settling, or otherwise administering claims arising out of workers' compensation or employers liability claims brought by its employees.

19.7. Replacement of Pro Rata Right of Contribution. The insurance, indemnification, hold harmless, and reimbursement provisions set forth above in Sections 19.1 through 19.4 are intended to and shall replace, and be applicable instead of, the pro rata right of contribution provisions of Government Code Section 895.6, to the extent that Section is applicable.

19.8. Defense by Modesto City Attorney. For any claim or lawsuit against City (whether or not also against District) which falls under Section 19.4, City may defend its own interests through its City Attorney's office; provided, however, that if District is also named in the claim or lawsuit, defense of District by the Modesto City Attorney shall only be with the consent of District, which consent shall not be unreasonably withheld. City shall bear all costs and expenses in representing its own interests pursuant to this Section 19.8. If the Modesto City Attorney represents both parties, then its costs and expenses shall be divided equally among the

Parties to the claim or lawsuit. If City decides not to represent its own interests pursuant to this Section 19.8 , then District shall defend the claim or lawsuit on behalf of City pursuant to Section 19.4.

20. RELATIONSHIP OF PARTIES.

Except as provided in Section 19, the covenants, obligations, and liabilities of the Parties are intended to be several and not joint or collective, and nothing herein contained shall ever be construed to create an association, joint venture, trust, or partnership, or to impose a trust or partnership covenant, obligation, or liability on or with regard to one or both of the Parties. Each Party shall be individually responsible for its own covenants, obligations, and liabilities pursuant to this Agreement. No Party shall be under the control of or shall be deemed to control any other Party or the Parties as a group. No Party shall be the agent of or have a right or power to bind any other Party without its express prior written consent, except as expressly provided in this Agreement.

21. GENERAL PROVISIONS GOVERNING AGREEMENT.

21.1. Severance. In the event that any of the terms, covenants or conditions of this Agreement or the application of any term, covenant or condition shall be held invalid as to any Party or circumstance by any court having jurisdiction over the Parties or subject matter of this Agreement, all other terms, covenants or conditions of this Agreement and their application shall not be affected thereby, but shall remain in force and effect unless a court holds that the provisions are not separable from all other provisions of this Agreement.

21.2 Waiver. The waiver at any time by any Party of its rights with respect to a default or other matter arising in connection with this Agreement shall not be deemed a waiver with respect to any subsequent default or matter.

21.3. Counterparts. This Agreement may be executed in counterparts.

21.4. Supporting Resolutions. Each Party represents that it has legal authority to enter into this Agreement and to perform its obligations hereunder, and shall attach to this Agreement a duly authorized resolution evidencing the authority and authorizing the person executing this Agreement to do so.

21.5. No Rights in Other Parties. This Agreement is for the sole benefit of the Parties and shall not be construed as granting rights to any person other than the Parties or, except as

specifically set forth in this Agreement, imputing to any person the obligations imposed on a Party.

21.6. Amendment. This Agreement may be amended only by a written instrument duly executed by both of the Parties hereto.

21.7. Obligations Prior to Termination. The obligations of the Parties incurred pursuant to this Agreement prior to Termination of this Agreement shall survive the Termination.

21.8. Captions. The captions and the headings in this Agreement are inserted merely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and provisions hereof.

21.9. Additional Documents. Each Party agrees to make, execute, and deliver any and all documents reasonably required to implement this Agreement.

21.10. Governing Law. This Agreement shall be interpreted, governed by, and construed under the laws of the State of California.

21.11. Shall and May. "Shall" is mandatory and "may" is permissive.

21.12. Non-Discrimination. In performing the obligations of this Agreement, there shall be no discrimination against any employee or applicant for employment because of race, color, religion, sex, or national origin.

22. TERM AND TERMINATION.

22.1. Execution by Both Parties. This Agreement shall not become effective until it has been executed by both Parties. Following execution by both Parties, this Agreement shall continue in effect until the earlier of the following:

22.1.1. Superseded by Other Agreement. This Agreement is superseded by another, or an amended, agreement which, by its terms, supersedes this Agreement.

22.1.2. Termination by Mutual Agreement. Termination by mutual agreement of the Parties.

22.2. Termination of Participation in First Expansion Facilities Prior to Financing. Notwithstanding any other provision in this Agreement to the contrary, either Party, prior to the time District issues either Variable Financing or Fixed Financing, whichever occurs first, for the purpose of Financing the First Expansion Facilities, upon not less than 30 days' written notice to the other Party, shall be entitled to terminate its participation in the First Expansion Facilities at any time (i) the Party determines that the First Expansion Facilities is not feasible because of

technical, engineering, or economic reasons, or if adequate insurance is not, or probably will not, be available at a commercially reasonable price, or for other reasons as would cause a reasonably prudent utility in the same or similar circumstances to terminate its participation in a First Expansion Facilities as is contemplated by this Agreement (failure of District to permanently secure a permit to divert sufficient water for urban purposes to meet its obligations under this agreement shall be such cause for termination), or (ii) City determines that District has failed to meet its Design Phase or, if Financing has not yet been obtained, its Construction Phase obligations, and has failed to pursue those obligations with due diligence. If the First Expansion Facilities is terminated pursuant to the provision, then this Agreement shall remain in effect as to the Initial Facilities.

23. UNDERTAKINGS. [Not Used]

24. WATER RIGHTS AND OWNERSHIP.

City shall not own or acquire any of District's water rights, but shall have an absolute right to the delivery of Treated Water in accordance with the terms of this Agreement. City shall not have any ownership rights in any of the facilities of the Project except as specified in this agreement. District shall use its best efforts to exercise and utilize all of its available water rights and supplies to ensure that it delivers the full allocation of Treated Water to City to the extent feasible. District, though, retains the discretion and flexibility to exercise its water rights in such a manner as to reasonably and prudently manage and plan for single and multiple-year Droughts. District also agrees to vigorously defend its water rights and oppose any litigation or regulatory proceeding that could adversely impact District's ability to provide the full allocation of Treated Water to City.

24.1. The parties contemplate that City may increase its reclamation of waste water from its primary or secondary wastewater treatment plants by additional advanced treatment/ technologies and/or methods for groundwater recharge, resale, or any other use whatsoever, inside or outside District's irrigation district boundary. District agrees that City has the right to utilize its reclaimed water in this manner, and shall not object to any such reclaimed water usage, transportation or sale to any, court, administrative agency or other body or tribunal with jurisdiction over any such use, or in the press.

24.2. Nothing in the agreement shall restrict, prohibit, or inhibit in any way, City's right to acquire from third parties and/or exercise water rights additional to or apart from those enumerated in this agreement.

25. NOTICES.

Any notice, demand, or request provided for in this Agreement shall be in writing, and shall be deemed properly served, given, or made if delivered in person or if sent by registered or certified mail, postage prepaid, to the persons specified below:


District: General Manager
 Modesto Irrigation District
 Post Office Box 4060
 Modesto, CA 95352

City: City Manager
 City of Modesto
 Post Office Box 642
 Modesto, CA 95353

MODESTO IRRIGATION DISTRICT

By: 
General Manager

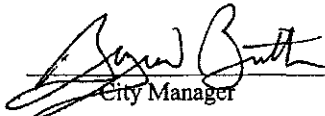
Approved as to form:


General Counsel

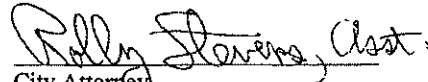
Attest:


Secretary

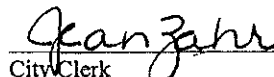
CITY OF MODESTO

By: 
City Manager

Approved as to form:


City Attorney

Attest:


City Clerk

RESOLUTION NO. 2005-159
ADOPTION OF AND AUTHORIZATION FOR THE GENERAL
MANAGER TO EXECUTE THE AMENDED AND RESTATED
TREATMENT AND DELIVERY AGREEMENT BETWEEN THE
MODESTO IRRIGATION DISTRICT AND THE CITY OF
MODESTO AND PERTAINING TO THE MODESTO REGIONAL
WATER TREATMENT PLANT PHASE TWO EXPANSION PROJECT

WHEREAS, in the early 1990's the Modesto Irrigation District (MID), City of Modesto (City), and the former Del Este Water Company (DEW) collaborated together for the purpose of utilizing MID's surface water rights for domestic drinking water purposes; and

WHEREAS, the existing Modesto Regional Water Treatment Plant (MRWTP) Treatment and Delivery Agreement was executed in April 1992, for the purposes of designing, constructing and operating the MRWTP; and

WHEREAS, the MRWTP, which consists of a 30 million gallon per day regional water treatment plant, and storage and delivery facilities, was completed in 1995; and

WHEREAS, at the direction of the MRWTP Policy Committee, the MID and the City, planning and engineering design studies have been undertaken to expand the capacity of the MRWTP to treat up to 67,200 acre-feet per year or 60 million gallons per day (mgd) on an average annual daily basis; and

WHEREAS, work on the Phase Two Expansion Project to date has been accomplished under an advanced funding and reimbursement agreement between the City and MID, wherein MID has initially funded the entire cost of the CEQA work and preliminary engineering; and

WHEREAS, MID will recover these funds once the project financing is completed, pursuant to the terms and conditions of the Amended and Restated Treatment and Delivery Agreement; and

WHEREAS, a Subsequent Environmental Impact Report (SEIR; State Clearinghouse Number 2004022013) for the MRWTP Phase Two Expansion Project was completed and certified by both MID and the City on July 12, 2005; and

WHEREAS, MID received approval on September 12, 2005, from the State Water Resources Control Board (WR Order No. 2005-0022-DWR) to change the purpose of use of up to 67,200 acre-feet per year of water from agricultural to municipal and industrial purposes; and

WHEREAS, the SEIR for the MRWTP Phase Two Expansion Project was approved by MID and the City, pursuant to the California Environmental Quality Act, on October 11, 2005; and

WHEREAS, it is now time to execute the Amended and Restated Treatment and Delivery Agreement between MID and the City pertaining to the MRWTP Phase Two Expansion Project.

NOW, therefore, BE IT RESOLVED, that the Modesto Irrigation District Board of Directors authorizes the General Manager to execute the Amended and Restated Treatment and Delivery Agreement between the Modesto Irrigation District and the City of Modesto pertaining to the Modesto Regional Water Treatment Plant (MRWTP) and directs staff to initiate the final design process related to the Phase Two Expansion of the MRWTP.

Moved by Director Warda, seconded by Director Kidd, that the foregoing resolution be adopted.

The following vote was had:

Ayes: Directors Billington, Hensley, Kidd, Van Groningen and Warda

Noes: Directors None

Absent: Directors None

The President declared the resolution adopted.

o0o

I, Vickie Ehrler, Secretary of the Board of Directors of the MODESTO IRRIGATION DISTRICT, do hereby CERTIFY that the foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of said Board of Directors held the 11th day of October 2005.

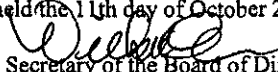

Secretary of the Board of Directors
of the Modesto Irrigation District

EXHIBIT A – MID SUNK COSTS

(Through October 1, 2005)

Consultants = \$982,773.00

Kind Labor = \$501,580.46

Materials & Supplies = \$18,558.08

Advertising = \$9,271.65

Meals & Lodging = \$2,701.07

Transportation = \$2,666.26

Miscellaneous = \$940.73

Meetings = \$ 875

TOTAL = \$1,519,366.25*

* Detailed accounts, reported by date and expenditure type, are included on the attached spreadsheets.

PHASE TWO DOMESTIC WATER EXPANSION PROJECT-COSTS FRONTED BY MID
EXPENDITURES THROUGH MAY 28, 2005

Line No	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Budgeted Cost	Comment	Expend Org
1	701620	1.0	COLBY, DAVID W (DAVE)	1	08-Jan-05	12	Hours	\$640 00		8420-Civil Engineering
2	701620	1.0	COLBY, DAVID W (DAVE)	1	22-Jan-05	12	Hours	\$640 00		8420-Civil Engineering
3	701620	1.0	COLBY, DAVID W (DAVE)	1	05-Feb-05	4	Hours	\$213 33		8420-Civil Engineering
4	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	27-Sep-01	20	Hours	\$1,493 33		8420-Civil Engineering
5	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	06-Oct-01	48	Hours	\$2,981 12		8420-Civil Engineering
6	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	20-Oct-01	48	Hours	\$2,981 12		8420-Civil Engineering
7	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	17-Nov-01	50	Hours	\$3,105 34		8420-Civil Engineering
8	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	01-Dec-01	24	Hours	\$1,490 58		8420-Civil Engineering
9	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	15-Dec-01	40	Hours	\$2,594 12		8420-Civil Engineering
10	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	29-Dec-01	44.5	Hours	\$2,874 55		8420-Civil Engineering
11	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	12-Jan-02	50	Hours	\$3,875 19		8420-Civil Engineering
12	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	28-Jan-02	45	Hours	\$2,907 14		8420-Civil Engineering
13	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	08-Feb-02	48	Hours	\$2,971 74		8420-Civil Engineering
14	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	23-Feb-02	51	Hours	\$3,294 78		8420-Civil Engineering
15	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	09-Mar-02	58.25	Hours	\$3,783 13		8420-Civil Engineering
16	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	09-Mar-02	6	Hours	\$387 62		8420-Civil Engineering
17	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	23-Mar-02	25	Hours	\$1,615 08		8420-Civil Engineering
18	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	06-Apr-02	25.5	Hours	\$1,647 39		8420-Civil Engineering
19	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	28-Apr-02	45	Hours	\$2,907 14		8420-Civil Engineering
20	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	04-May-02	44	Hours	\$2,842 54		8420-Civil Engineering
21	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	18-May-02	40	Hours	\$2,584 12		8420-Civil Engineering
22	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	01-Jun-02	38	Hours	\$2,454 92		8420-Civil Engineering
23	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	15-Jun-02	44	Hours	\$2,842 54		8420-Civil Engineering
24	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	29-Jun-02	43	Hours	\$2,777 93		8420-Civil Engineering
25	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	13-Jul-02	38	Hours	\$2,519 52		8420-Civil Engineering
26	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	19-Jul-02	16	Hours	\$1,059 58		8420-Civil Engineering
27	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	25-Jan-03	10	Hours	\$657 23		8420-Civil Engineering
28	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	06-Feb-03	24	Hours	\$1,849 34		8420-Civil Engineering
29	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	22-Feb-03	20	Hours	\$1,374 45		8420-Civil Engineering
30	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	08-Mar-03	15	Hours	\$1,124 42		8420-Civil Engineering
31	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	22-Mar-03	20	Hours	\$1,499 23		8420-Civil Engineering
32	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	05-Apr-03	21	Hours	\$1,574 19		8420-Civil Engineering
33	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	19-Apr-03	30	Hours	\$2,248 83		8420-Civil Engineering
34	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	03-May-03	25	Hours	\$1,674 04		8420-Civil Engineering
35	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	17-May-03	26	Hours	\$1,849 00		8420-Civil Engineering
36	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	31-May-03	20	Hours	\$1,499 23		8420-Civil Engineering
37	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	14-Jun-03	48	Hours	\$3,586 18		8420-Civil Engineering
38	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	28-Jun-03	12	Hours	\$899 54		8420-Civil Engineering
39	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	12-Jul-03	22	Hours	\$1,554 02		8420-Civil Engineering
40	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	28-Jul-03	2	Hours	\$188 53		8420-Civil Engineering
41	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	08-Aug-03	12	Hours	\$1,011 28		8420-Civil Engineering
42	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	05-Sep-03	22	Hours	\$1,854 02		8420-Civil Engineering
43	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	20-Sep-03	18	Hours	\$1,519 92		8420-Civil Engineering
44	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	04-Oct-03	25	Hours	\$2,106 84		8420-Civil Engineering
45	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	18-Oct-03	32	Hours	\$2,698 76		8420-Civil Engineering
46	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	01-Nov-03	33	Hours	\$2,781 03		8420-Civil Engineering
47	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	15-Nov-03	40	Hours	\$3,370 54		8420-Civil Engineering
48	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	28-Nov-03	17	Hours	\$1,432 85		8420-Civil Engineering
49	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	13-Dec-03	20	Hours	\$1,744 48		8420-Civil Engineering
50	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	27-Dec-03	19	Hours	\$1,657 25		8420-Civil Engineering
51	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	10-Jan-04	38	Hours	\$3,028 84		8420-Civil Engineering
52	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	24-Jan-04	43	Hours	\$3,427 37		8420-Civil Engineering
53	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	07-Feb-04	61.5	Hours	\$4,887 12		8420-Civil Engineering
54	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	21-Feb-04	50.5	Hours	\$4,013 01		8420-Civil Engineering
55	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	06-Mar-04	80.5	Hours	\$6,828 37		8420-Civil Engineering
56	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	20-Mar-04	50.5	Hours	\$4,068 48		8420-Civil Engineering
57	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	03-Apr-04	55	Hours	\$4,389 15		8420-Civil Engineering
58	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	17-Apr-04	32	Hours	\$2,553 59		8420-Civil Engineering
59	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	15-May-04	59	Hours	\$4,708 36		8420-Civil Engineering
60	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	29-May-04	38.5	Hours	\$3,072 41		8420-Civil Engineering
61	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	12-Jun-04	44	Hours	\$3,511 32		8420-Civil Engineering
62	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	26-Jun-04	20	Hours	\$1,598 05		8420-Civil Engineering
63	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	10-Jul-04	24	Hours	\$1,915 06		8420-Civil Engineering
64	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	24-Jul-04	28	Hours	\$2,234 47		8420-Civil Engineering
65	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	07-Aug-04	40.5	Hours	\$2,978 28		8420-Civil Engineering
66	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	21-Aug-04	12	Hours	\$882 48		8420-Civil Engineering
67	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	04-Sep-04	38	Hours	\$2,784 44		8420-Civil Engineering
68	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	18-Sep-04	38	Hours	\$2,784 44		8420-Civil Engineering
69	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	02-Oct-04	34	Hours	\$2,592 29		8420-Civil Engineering
70	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	16-Oct-04	42	Hours	\$3,058 59		8420-Civil Engineering
71	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	30-Oct-04	52	Hours	\$3,823 97		8420-Civil Engineering
72	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	13-Nov-04	54	Hours	\$3,971 05		8420-Civil Engineering
73	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	27-Nov-04	36	Hours	\$2,647 37		8420-Civil Engineering
74	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	11-Dec-04	30	Hours	\$2,206 14		8420-Civil Engineering
75	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	25-Dec-04	41	Hours	\$3,015 08		8420-Civil Engineering
76	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	08-Jan-05	8	Hours	\$588 30		8420-Civil Engineering
77	701620	1.0	DIAS, GREGORY PAUL (GREG)	1	04-Jan-05	25	Hours	\$1,838 45		8420-Civil Engineering

Line No	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Burdened Cost	Comment	Expend Org
78	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	22-Jan-05	56	Hours	\$4,118.12		8420-Civil Engineering
79	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	05-Feb-05	56	Hours	\$4,265.20		8420-Civil Engineering
80	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	19-Feb-05	43	Hours	\$3,162.13		8420-Civil Engineering
81	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	05-Mar-05	41	Hours	\$3,015.08		8420-Civil Engineering
82	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	18-Mar-05	47	Hours	\$3,559.56		8420-Civil Engineering
83	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	02-Apr-05	52	Hours	\$4,506.01		8420-Civil Engineering
84	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	16-Apr-05	62	Hours	\$5,415.99		8420-Civil Engineering
85	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	30-Apr-05	62	Hours	\$5,372.55		8420-Civil Engineering
86	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	14-May-05	52	Hours	\$5,099.58		8420-Civil Engineering
87	701820	1.0	DIAS, GREGORY PAUL (GREG)	1	28-May-05	28	Hours			8420-Civil Engineering
				Total Labor				\$220,398.49		
88	701820	1.0	DOMEGO, ALLEN ROSS (ALLEN)	1	27-Dec-03	5	Hours	\$286.61		8220-Modesto Dam Water
				Total Labor				\$286.61		
89	701820	1.0	DURRER, CHARLES L (CHUCK)	1	27-Dec-03	4	Hours	\$182.25		8220-Modesto Dam Water
90	701820	1.0	DURRER, CHARLES L (CHUCK)	1	10-Jan-04	20	Hours	\$741.32		8220-Modesto Dam Water
91	701820	1.0	DURRER, CHARLES L (CHUCK)	1	24-Jan-04	10	Hours	\$370.66		8220-Modesto Dam Water
				Total Labor				\$1,274.23		
92	701820	1.0	EDWARDS, KENNETH W (KEN)	1	27-Dec-03	8	Hours	\$647.84		8220-Modesto Dam Water
93	701820	1.0	EDWARDS, KENNETH W (KEN)	1	10-Jan-04	30	Hours	\$2,220.00		8220-Modesto Dam Water
94	701820	1.0	EDWARDS, KENNETH W (KEN)	1	24-Jan-04	14	Hours	\$1,036.00		8220-Modesto Dam Water
95	701820	1.1	EDWARDS, KENNETH W (KEN)	1	07-Feb-04	10	Hours	\$737.76		8220-Modesto Dam Water
96	701820	1.0	EDWARDS, KENNETH W (KEN)	1	07-Feb-04	10	Hours	\$737.76		8220-Modesto Dam Water
97	701820	1.1	EDWARDS, KENNETH W (KEN)	1	21-Feb-04	5	Hours	\$368.88		8220-Modesto Dam Water
98	701820	1.0	EDWARDS, KENNETH W (KEN)	1	21-Feb-04	2	Hours	\$147.55		8220-Modesto Dam Water
99	701820	1.1	EDWARDS, KENNETH W (KEN)	1	08-Mar-04	10	Hours	\$749.89		8220-Modesto Dam Water
100	701820	1.1	EDWARDS, KENNETH W (KEN)	1	29-Mar-04	5	Hours	\$370.45		8220-Modesto Dam Water
101	701820	1.1	EDWARDS, KENNETH W (KEN)	1	01-May-04	8	Hours	\$444.54		8220-Modesto Dam Water
102	701820	1.0	EDWARDS, KENNETH W (KEN)	1	01-May-04	6	Hours	\$582.72		8220-Modesto Dam Water
103	701820	1.0	EDWARDS, KENNETH W (KEN)	1	29-May-04	10	Hours	\$740.89		8220-Modesto Dam Water
104	701820	1.1	EDWARDS, KENNETH W (KEN)	1	18-Oct-04	8	Hours	\$548.19		8220-Modesto Dam Water
105	701820	1.0	EDWARDS, KENNETH W (KEN)	1	30-Oct-04	20	Hours	\$1,365.46		8220-Modesto Dam Water
106	701820	1.0	EDWARDS, KENNETH W (KEN)	1	13-Nov-04	10	Hours	\$682.73		8220-Modesto Dam Water
				Total Labor				\$11,278.88		
107	701820	1.0	GUNAM, DALE E (DALE)	1	27-Dec-03	4	Hours	\$170.50		8220-Modesto Dam Water
				Total Labor				\$170.50		
108	701820	1.0	HARMON, KATE C (KATE)	1	27-Dec-03	4	Hours	\$170.50		8220-Modesto Dam Water
				Total Labor				\$170.50		
109	701820	1.0	HAUGH, JEFFREY CARL (JEFF)	1	27-Dec-03	4	Hours	\$229.29		8220-Modesto Dam Water
				Total Labor				\$229.29		
110	701820	1.0	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	01-May-04	10	Hours	\$696.08		8220-Modesto Dam Water
111	701820	1.0	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	15-May-04	20	Hours	\$1,218.17		8220-Modesto Dam Water
112	701820	1.0	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	28-May-04	20	Hours	\$1,216.17		8220-Modesto Dam Water
113	701820	1.0	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	12-Jun-04	12	Hours	\$729.70		8220-Modesto Dam Water
114	701820	1.0	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	28-Jun-04	8	Hours	\$486.47		8220-Modesto Dam Water
115	701820	1.0	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	10-Jul-04	8	Hours	\$486.47		8220-Modesto Dam Water
116	701820	1.0	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	07-Aug-04	10	Hours	\$580.35		8220-Modesto Dam Water
117	701820	1.0	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	21-Aug-04	10	Hours	\$588.73		8220-Modesto Dam Water
118	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	04-Sep-04	10	Hours	\$588.73		8220-Modesto Dam Water
119	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	18-Sep-04	10	Hours	\$588.73		8220-Modesto Dam Water
120	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	02-Oct-04	10	Hours	\$588.73		8220-Modesto Dam Water
121	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	16-Oct-04	10	Hours	\$588.73		8220-Modesto Dam Water
122	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	30-Oct-04	10	Hours	\$588.73		8220-Modesto Dam Water
123	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	13-Nov-04	10	Hours	\$588.73		8220-Modesto Dam Water
124	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	27-Nov-04	8	Hours	\$588.73		8220-Modesto Dam Water
125	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	13-Dec-04	6	Hours	\$394.37		8220-Modesto Dam Water
126	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	25-Dec-04	2	Hours	\$117.75		8220-Modesto Dam Water
127	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	08-Jan-05	8	Hours	\$470.98		8220-Modesto Dam Water
128	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	08-Jan-05	4	Hours	\$235.49		8220-Modesto Dam Water
129	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	22-Jan-05	4	Hours	\$235.49		8220-Modesto Dam Water
130	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	05-Feb-05	12	Hours	\$706.48		8220-Modesto Dam Water
131	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	19-Feb-05	16	Hours	\$941.97		8220-Modesto Dam Water
132	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	05-Mar-05	14	Hours	\$874.67		8220-Modesto Dam Water
133	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	19-Mar-05	8	Hours	\$485.16		8220-Modesto Dam Water
134	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	02-Apr-05	10	Hours	\$693.69		8220-Modesto Dam Water
135	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	16-Apr-05	10	Hours	\$693.69		8220-Modesto Dam Water
136	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	30-Apr-05	22	Hours	\$1,526.49		8220-Modesto Dam Water
137	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	14-May-05	10	Hours	\$785.26		8220-Modesto Dam Water
138	701820	1.1	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	1	28-May-05	10	Hours			8220-Modesto Dam Water
				Total Labor				\$17,766.13		
139	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	22-Sep-01	8	Hours	\$578.28		8420-Civil Engineering
140	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	06-Oct-01	6	Hours	\$432.21		8420-Civil Engineering
141	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	20-Oct-01	8	Hours	\$576.28		8420-Civil Engineering
142	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	03-Nov-01	4	Hours	\$288.14		8420-Civil Engineering
143	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	17-Nov-01	4	Hours	\$288.14		8420-Civil Engineering
144	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	01-Dec-01	4	Hours	\$288.14		8420-Civil Engineering
145	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	12-Jan-02	10	Hours	\$748.06		8420-Civil Engineering
146	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	26-Jan-02	20	Hours	\$1,496.12		8420-Civil Engineering
147	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	09-Feb-02	14	Hours	\$1,048.69		8420-Civil Engineering
148	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	23-Feb-02	24	Hours	\$1,797.75		8420-Civil Engineering
149	701820	1.0	KETSCHER, WILLIAM M (BILL)	1	09-Mar-02	4	Hours	\$299.62		8420-Civil Engineering

Line No	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Burdened Cost	Comment	Expend Org
150	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	16-Oct-02	1	Hours	\$76.62		8420-Civil Engineering
151	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	25-Jan-03	2	Hours	\$159.38		8420-Civil Engineering
152	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	08-Feb-03	2	Hours	\$159.38		8420-Civil Engineering
153	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	05-Apr-03	2	Hours	\$173.85		8420-Civil Engineering
154	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	14-Apr-03	6	Hours	\$695.34		8420-Civil Engineering
155	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	12-Jul-03	1	Hours	\$87.72		8420-Civil Engineering
156	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	09-Aug-03	2	Hours	\$195.44		8420-Civil Engineering
157	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	16-Oct-03	4	Hours	\$390.89		8420-Civil Engineering
158	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	01-Nov-03	4	Hours	\$390.89		8420-Civil Engineering
158	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	15-Nov-03	4	Hours	\$390.89		8420-Civil Engineering
160	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	29-Nov-03	4	Hours	\$390.89		8420-Civil Engineering
161	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	15-Mar-04	6	Hours	\$555.22		8420-Civil Engineering
162	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	29-Mar-04	2	Hours	\$185.07		8420-Civil Engineering
163	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	28-Jun-04	6	Hours	\$555.22		8420-Civil Engineering
164	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	10-Jul-04	4	Hours	\$370.15		8420-Civil Engineering
165	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	07-Aug-04	4	Hours	\$341.09		8420-Civil Engineering
166	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	21-Aug-04	8	Hours	\$511.64		8420-Civil Engineering
167	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	04-Sep-04	4	Hours	\$341.09		8420-Civil Engineering
168	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	19-Sep-04	6	Hours	\$511.64		8420-Civil Engineering
169	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	02-Oct-04	12	Hours	\$1,023.27		8420-Civil Engineering
170	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	16-Oct-04	8	Hours	\$682.18		8420-Civil Engineering
171	701620	1 1	KETSCHER, WILLIAM M (BILL)	1	30-Oct-04	10	Hours	\$852.73		8420-Civil Engineering
172	701620	1 1	KETSCHER, WILLIAM M (BILL)	1	13-Nov-04	10	Hours	\$852.73		8420-Civil Engineering
173	701620	1 1	KETSCHER, WILLIAM M (BILL)	1	27-Nov-04	2	Hours	\$178.55		8420-Civil Engineering
174	701620	1 1	KETSCHER, WILLIAM M (BILL)	1	11-Dec-04	8	Hours	\$511.64		8420-Civil Engineering
175	701620	1 1	KETSCHER, WILLIAM M (BILL)	1	25-Dec-04	8	Hours	\$682.18		8420-Civil Engineering
176	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	06-Jan-05	30	Hours	\$2,556.18		8420-Civil Engineering
177	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	19-Jan-05	12	Hours	\$1,023.27		8420-Civil Engineering
177	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	24-Jan-05	24	Hours	\$2,046.55		8420-Civil Engineering
178	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	05-Feb-05	24	Hours	\$2,046.55		8420-Civil Engineering
179	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	19-Feb-05	8	Hours	\$682.18		8420-Civil Engineering
180	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	05-Mar-05	8	Hours	\$682.18		8420-Civil Engineering
181	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	19-Mar-05	8	Hours	\$702.89		8420-Civil Engineering
182	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	02-Apr-05	16	Hours	\$1,608.00		8420-Civil Engineering
183	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	16-Apr-05	16	Hours	\$1,608.00		8420-Civil Engineering
184	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	30-Apr-05	10	Hours	\$1,023.27		8420-Civil Engineering
185	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	14-May-05	24	Hours	\$2,728.73		8420-Civil Engineering
186	701620	1 0	KETSCHER, WILLIAM M (BILL)	1	28-May-05	10	Hours	\$852.73		8420-Civil Engineering
187	701620	1 0	LOSCHKE, CARRIE E (CARRIE)	1	27-Dec-03	5.3	Hours	\$225.92		8220-Modesto Dam Water
				Total Labor				\$36,906.16		
188	701620	1 0	MASON, JOSEPH EDWARD (JOE)	1	27-Dec-03	4	Hours	\$183.61		8220-Modesto Dam Water
189	701620	1 0	MASON, JOSEPH EDWARD (JOE)	1	10-Jan-04	30	Hours	\$1,298.26		8220-Modesto Dam Water
190	701620	1 0	MASON, JOSEPH EDWARD (JOE)	1	24-Jan-04	10	Hours	\$419.45		8220-Modesto Dam Water
191	701620	1 0	MICAL, WILLIAM ANDREW (ANDY)	1	10-Jan-04	9	Hours	\$471.44		8220-Modesto Dam Water
192	701620	1 0	MICAL, WILLIAM ANDREW (ANDY)	1	24-Jan-04	1	Hours	\$52.36		8220-Modesto Dam Water
193	701620	1 0	MICAL, WILLIAM ANDREW (ANDY)	1	01-May-04	2	Hours	\$104.66		8220-Modesto Dam Water
				Total Labor				\$2,480.13		
194	701620	1 0	MILLER, JEFFERY LEE (JEFF)	1	10-Jan-04	5	Hours	\$288.04		8220-Modesto Dam Water
195	701620	1 0	MILLER, JEFFERY LEE (JEFF)	1	24-Jan-04	60	Hours	\$5,468.44		8220-Modesto Dam Water
196	701620	1 1	MILLER, JEFFERY LEE (JEFF)	1	07-Feb-04	34.5	Hours	\$1,988.33		8220-Modesto Dam Water
197	701620	1 0	MILLER, JEFFERY LEE (JEFF)	1	07-Feb-04	5	Hours	\$288.16		8220-Modesto Dam Water
198	701620	1 1	MILLER, JEFFERY LEE (JEFF)	1	06-Mar-04	10	Hours	\$578.77		8220-Modesto Dam Water
199	701620	1 0	MILLER, JEFFERY LEE (JEFF)	1	28-May-04	10	Hours	\$578.77		8220-Modesto Dam Water
200	701620	1 1	MILLER, JEFFERY LEE (JEFF)	1	13-Nov-04	4	Hours	\$213.33		8220-Modesto Dam Water
201	701620	1 0	MILLER, JEFFERY LEE (JEFF)	PO4 (overtime)	29-May-04	0	Hours	\$72.35		8220-Modesto Dam Water
				Total Labor				\$7,477.18		
202	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	08-Jan-05	13	Hours	\$541.76		8410-Water Use Planning & Conservation
203	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	22-Jan-05	20	Hours	\$833.50		8410-Water Use Planning & Conservation
204	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	05-Feb-05	12	Hours	\$520.10		8410-Water Use Planning & Conservation
205	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	19-Feb-05	3	Hours	\$131.34		8410-Water Use Planning & Conservation
206	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	18-Mar-05	38	Hours	\$1,758.64		8410-Water Use Planning & Conservation
207	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	02-Apr-05	8	Hours	\$412.75		8410-Water Use Planning & Conservation
208	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	16-Apr-05	20	Hours	\$1,031.89		8410-Water Use Planning & Conservation
209	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	30-Apr-05	30	Hours	\$1,547.83		8410-Water Use Planning & Conservation
210	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	1	14-May-05	3	Hours	\$175.17		8410-Water Use Planning & Conservation
211	701620	1 0	NIEMI, MICHAEL JOHN (MICHAEL)	P12 (overtime)	18-Mar-05	0	Hours	\$45.09		8410-Water Use Planning & Conservation
				Total Labor				\$6,978.09		
212	701620	1 0	NOFFSINGER, GARY J (GARY)	1	27-Dec-03	4	Hours	\$126.77		8220 Modesto Dam Water
				Total Labor				\$126.77		
213	701620	1 0	RYAN, PATRICK J (PAT)	1	27-Dec-03	14.5	Hours	\$1,266.25		8220-Modesto Dam Water
214	701620	1 0	RYAN, PATRICK J (PAT)	1	10-Jan-04	4	Hours	\$326.76		8220 Modesto Dam Water

Line No	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Burdened Cost	Comment	Expend Org
215	701620	1 0	RYAN, PATRICK J (PAT)	1	07-Feb-04	8	Hours	\$851.56		8220-Modesto Dom Water
216	701620	1 0	RYAN, PATRICK J (PAT)	1	21-Feb-04	11	Hours	\$695.89		8220-Modesto Dom Water
217	701620	1 0	RYAN, PATRICK J (PAT)	1	06-Mar-04	24	Hours	\$1,962.98		8220-Modesto Dom Water
218	701620	1 0	RYAN, PATRICK J (PAT)	1	20-Mar-04	5	Hours	\$408.98		8220-Modesto Dom Water
219	701620	1 0	RYAN, PATRICK J (PAT)	1	03-Apr-04	3	Hours	\$245.37		8220-Modesto Dom Water
220	701620	1 0	RYAN, PATRICK J (PAT)	1	17-Apr-04	2	Hours	\$163.58		8220-Modesto Dom Water
221	701620	1 0	RYAN, PATRICK J (PAT)	1	01-May-04	10	Hours	\$817.90		8220-Modesto Dom Water
222	701620	1 0	RYAN, PATRICK J (PAT)	1	15-May-04	10	Hours	\$817.90		8220-Modesto Dom Water
223	701620	1 0	RYAN, PATRICK J (PAT)	1	28-May-04	12	Hours	\$1,031.16		8220-Modesto Dom Water
224	701620	1 0	RYAN, PATRICK J (PAT)	1	12-Jun-04	10	Hours	\$859.30		8220-Modesto Dom Water
225	701620	1 0	RYAN, PATRICK J (PAT)	1	25-Jun-04	10	Hours	\$859.30		8220-Modesto Dom Water
226	701620	1 0	RYAN, PATRICK J (PAT)	1	10-Jul-04	10	Hours	\$859.30		8220-Modesto Dom Water
227	701620	1 0	RYAN, PATRICK J (PAT)	1	24-Jul-04	10	Hours	\$859.30		8220-Modesto Dom Water
228	701620	1 0	RYAN, PATRICK J (PAT)	1	07-Aug-04	10	Hours	\$791.64		8220-Modesto Dom Water
229	701620	1 0	RYAN, PATRICK J (PAT)	1	21-Aug-04	5	Hours	\$395.92		8220-Modesto Dom Water
230	701620	1 0	RYAN, PATRICK J (PAT)	1	04-Sep-04	60	Hours	\$791.84		8220-Modesto Dom Water
231	701620	1 0	RYAN, PATRICK J (PAT)	1	18-Sep-04	10	Hours	\$791.84		8220-Modesto Dom Water
232	701620	1 0	RYAN, PATRICK J (PAT)	1	02-Oct-04	17	Hours	\$1,346.13		8220-Modesto Dom Water
233	701620	1 0	RYAN, PATRICK J (PAT)	1	16-Oct-04	10	Hours	\$791.84		8220-Modesto Dom Water
234	701620	1 0	RYAN, PATRICK J (PAT)	1	30-Oct-04	15	Hours	\$1,187.76		8220-Modesto Dom Water
235	701620	1 0	RYAN, PATRICK J (PAT)	1	13-Nov-04	10	Hours	\$791.84		8220-Modesto Dom Water
236	701620	1 0	RYAN, PATRICK J (PAT)	1	27-Nov-04	7.5	Hours	\$593.89		8220-Modesto Dom Water
237	701620	1 0	RYAN, PATRICK J (PAT)	1	11-Dec-04	12	Hours	\$950.21		8220-Modesto Dom Water
238	701620	1 0	RYAN, PATRICK J (PAT)	1	25-Dec-04	15	Hours	\$1,187.76		8220-Modesto Dom Water
239	701620	1 0	RYAN, PATRICK J (PAT)	1	08-Jan-05	4	Hours	\$316.74		8220-Modesto Dom Water
240	701620	1 0	RYAN, PATRICK J (PAT)	1	09-Jan-05	12	Hours	\$950.21		8220-Modesto Dom Water
241	701620	1 0	RYAN, PATRICK J (PAT)	1	22-Jan-05	17	Hours	\$1,346.13		8220-Modesto Dom Water
242	701620	1 0	RYAN, PATRICK J (PAT)	1	05-Feb-05	12	Hours	\$950.21		8220-Modesto Dom Water
243	701620	1 0	RYAN, PATRICK J (PAT)	1	18-Feb-05	26	Hours	\$2,058.79		8220-Modesto Dom Water
244	701620	1 0	RYAN, PATRICK J (PAT)	1	05-Mar-05	8	Hours	\$623.47		8220-Modesto Dom Water
245	701620	1 0	RYAN, PATRICK J (PAT)	1	19-Mar-05	29	Hours	\$2,385.38		8220-Modesto Dom Water
246	701620	1 0	RYAN, PATRICK J (PAT)	1	02-Apr-05	10	Hours	\$833.24		8220-Modesto Dom Water
247	701620	1 0	RYAN, PATRICK J (PAT)	1	16-Apr-05	14	Hours	\$1,105.63		8220-Modesto Dom Water
248	701620	1 0	RYAN, PATRICK J (PAT)	1	30-Apr-05	16	Hours	\$1,493.18		8220-Modesto Dom Water
249	701620	1 0	RYAN, PATRICK J (PAT)	1	14-May-05	8	Hours	\$644.94		8220-Modesto Dom Water
250	701620	1 0	RYAN, PATRICK J (PAT)	1	28-May-05	12	Hours	\$950.21		8220-Modesto Dom Water
			Total Labor					\$34,876.14		
251	701620	1 0	SMALLING, MARGINE A (MARCINE)	1	27-Dec-03	5.5	Hours	\$192.44		8220-Modesto Dom Water
			Total Labor					\$192.44		
252	701620	1 0	ULM, AARON REYNOLDS (AARON)	1	04-Sep-04	2	Hours	\$50.85		8420-Civil Engineering
253	701620	1 0	ULM, AARON REYNOLDS (AARON)	1	18-Sep-04	4	Hours	\$101.69		8420-Civil Engineering
			Total Labor					\$152.54		
254	701620	1 0	WARD, WALTER PAUL (WALT)	1	22-Sep-01	2.5	Hours	\$198.28		8010-AGM-Water Operations
255	701620	1 0	WARD, WALTER PAUL (WALT)	1	06-Oct-01	3	Hours	\$238.13		8010-AGM-Water Operations
256	701620	1 0	WARD, WALTER PAUL (WALT)	1	20-Oct-01	2	Hours	\$156.42		8010-AGM-Water Operations
257	701620	1 0	WARD, WALTER PAUL (WALT)	1	03-Nov-01	2	Hours	\$159.42		8010-AGM-Water Operations
258	701620	1 0	WARD, WALTER PAUL (WALT)	1	17-Nov-01	4	Hours	\$318.85		8010-AGM-Water Operations
259	701620	1 0	WARD, WALTER PAUL (WALT)	1	01-Dec-01	4	Hours	\$318.85		8010-AGM-Water Operations
260	701620	1 0	WARD, WALTER PAUL (WALT)	1	15-Dec-01	8	Hours	\$497.40		8010-AGM-Water Operations
261	701620	1 0	WARD, WALTER PAUL (WALT)	1	29-Dec-01	10	Hours	\$825.00		8010-AGM-Water Operations
262	701620	1 0	WARD, WALTER PAUL (WALT)	1	12-Jan-02	9	Hours	\$746.10		8010-AGM-Water Operations
263	701620	1 0	WARD, WALTER PAUL (WALT)	1	26-Jan-02	6	Hours	\$497.40		8010-AGM-Water Operations
264	701620	1 0	WARD, WALTER PAUL (WALT)	1	09-Feb-02	6	Hours	\$497.40		8010-AGM-Water Operations
265	701620	1 0	WARD, WALTER PAUL (WALT)	1	23-Feb-02	12	Hours	\$994.80		8010-AGM-Water Operations
266	701620	1 0	WARD, WALTER PAUL (WALT)	1	09-Mar-02	12	Hours	\$994.80		8010-AGM-Water Operations
267	701620	1 0	WARD, WALTER PAUL (WALT)	1	23-Mar-02	6	Hours	\$497.40		8010-AGM-Water Operations
268	701620	1 0	WARD, WALTER PAUL (WALT)	1	06-Apr-02	8	Hours	\$663.20		8010-AGM-Water Operations
269	701620	1 0	WARD, WALTER PAUL (WALT)	1	20-Apr-02	1.5	Hours	\$124.38		8010-AGM-Water Operations
270	701620	1 0	WARD, WALTER PAUL (WALT)	1	04-May-02	4	Hours	\$331.60		8010-AGM-Water Operations
271	701620	1 0	WARD, WALTER PAUL (WALT)	1	18-May-02	4	Hours	\$331.60		8010-AGM-Water Operations
272	701620	1 0	WARD, WALTER PAUL (WALT)	1	01-Jun-02	6	Hours	\$497.40		8010-AGM-Water Operations
273	701620	1 0	WARD, WALTER PAUL (WALT)	1	15-Jun-02	10	Hours	\$828.00		8010-AGM-Water Operations
274	701620	1 0	WARD, WALTER PAUL (WALT)	1	29-Jun-02	4	Hours	\$331.60		8010-AGM-Water Operations
275	701620	1 0	WARD, WALTER PAUL (WALT)	1	13-Jul-02	2	Hours	\$165.80		8010-AGM-Water Operations
276	701620	1 0	WARD, WALTER PAUL (WALT)	1	10-Aug-02	2	Hours	\$165.80		8010-AGM-Water Operations
277	701620	1 0	WARD, WALTER PAUL (WALT)	1	24-Aug-02	4	Hours	\$331.60		8010-AGM-Water Operations
278	701620	1 0	WARD, WALTER PAUL (WALT)	1	21-Sep-02	4	Hours	\$331.60		8010-AGM-Water Operations
279	701620	1 0	WARD, WALTER PAUL (WALT)	1	16-Nov-02	4	Hours	\$331.60		8010-AGM-Water Operations
280	701620	1 0	WARD, WALTER PAUL (WALT)	1	08-Feb-03	4	Hours	\$352.78		8010-AGM-Water Operations
281	701620	1 0	WARD, WALTER PAUL (WALT)	1	22-Feb-03	4	Hours	\$352.78		8010-AGM-Water Operations
282	701620	1 0	WARD, WALTER PAUL (WALT)	1	08-Mar-03	2	Hours	\$192.40		8010-AGM-Water Operations
283	701620	1 0	WARD, WALTER PAUL (WALT)	1	22-Mar-03	4	Hours	\$384.79		8010-AGM-Water Operations
284	701620	1 0	WARD, WALTER PAUL (WALT)	1	15-Apr-03	2	Hours	\$192.40		8010-AGM-Water Operations
285	701620	1 0	WARD, WALTER PAUL (WALT)	1	03-May-03	3	Hours	\$289.59		8010-AGM-Water Operations
286	701620	1 0	WARD, WALTER PAUL (WALT)	1	14-Jun-03	3.5	Hours	\$336.70		8010-AGM-Water Operations
287	701620	1 0	WARD, WALTER PAUL (WALT)	1	28-Jun-03	4	Hours	\$384.79		8010-AGM-Water Operations
288	701620	1 0	WARD, WALTER PAUL (WALT)	1	12-Jul-03	8	Hours	\$865.18		8010-AGM-Water Operations
289	701620	1 0	WARD, WALTER PAUL (WALT)	1	26-Jul-03	4	Hours	\$432.58		8010-AGM-Water Operations
290	701620	1 0	WARD, WALTER PAUL (WALT)	1	09-Aug-03	2.5	Hours	\$336.53		8010-AGM-Water Operations
291	701620	1 0	WARD, WALTER PAUL (WALT)	1	23-Aug-03	4	Hours	\$432.58		8010-AGM-Water Operations

Line	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Burdened Cost	Comment	Expend Org
292	701620	10	WARD, WALTER PAUL (WALT)	1	06-Sep-03	4	Hours	\$452.58		8010-AGM-Water Operations
293	701620	10	WARD, WALTER PAUL (WALT)	1	20-Sep-03	5	Hours	\$548.88		8010-AGM-Water Operations
294	701620	10	WARD, WALTER PAUL (WALT)	1	04-Oct-03	5	Hours	\$540.74		8010-AGM-Water Operations
295	701620	10	WARD, WALTER PAUL (WALT)	1	18-Oct-03	5	Hours	\$540.74		8010-AGM-Water Operations
296	701620	10	WARD, WALTER PAUL (WALT)	1	15-Nov-03	3	Hours	\$324.44		8010-AGM-Water Operations
297	701620	10	WARD, WALTER PAUL (WALT)	1	29-Nov-03	6	Hours	\$646.69		8010-AGM-Water Operations
298	701620	10	WARD, WALTER PAUL (WALT)	1	13-Dec-03	4	Hours	\$447.72		8010-AGM-Water Operations
299	701620	10	WARD, WALTER PAUL (WALT)	1	27-Dec-03	10	Hours	\$1,119.30		8010-AGM-Water Operations
300	701620	10	WARD, WALTER PAUL (WALT)	1	10-Jan-04	4	Hours	\$408.13		8010-AGM-Water Operations
301	701620	10	WARD, WALTER PAUL (WALT)	1	24-Jan-04	6	Hours	\$613.70		8010-AGM-Water Operations
302	701620	10	WARD, WALTER PAUL (WALT)	1	07-Feb-04	6	Hours	\$611.84		8010-AGM-Water Operations
303	701620	10	WARD, WALTER PAUL (WALT)	1	21-Feb-04	12	Hours	\$1,223.69		8010-AGM-Water Operations
304	701620	10	WARD, WALTER PAUL (WALT)	1	08-Mar-04	20	Hours	\$2,048.14		8010-AGM-Water Operations
305	701620	10	WARD, WALTER PAUL (WALT)	1	20-Mar-04	6	Hours	\$614.44		8010-AGM-Water Operations
306	701620	10	WARD, WALTER PAUL (WALT)	1	03-Apr-04	4	Hours	\$408.63		8010-AGM-Water Operations
307	701620	10	WARD, WALTER PAUL (WALT)	1	17-Apr-04	6	Hours	\$613.28		8010-AGM-Water Operations
308	701620	10	WARD, WALTER PAUL (WALT)	1	01-May-04	12	Hours	\$1,228.88		8010-AGM-Water Operations
309	701620	10	WARD, WALTER PAUL (WALT)	1	15-May-04	8	Hours	\$819.28		8010-AGM-Water Operations
310	701620	10	WARD, WALTER PAUL (WALT)	1	29-May-04	10	Hours	\$1,024.07		8010-AGM-Water Operations
311	701620	10	WARD, WALTER PAUL (WALT)	1	12-Jun-04	15	Hours	\$1,536.11		8010-AGM-Water Operations
312	701620	10	WARD, WALTER PAUL (WALT)	1	28-Jun-04	8	Hours	\$819.28		8010-AGM-Water Operations
313	701620	10	WARD, WALTER PAUL (WALT)	1	10-Jul-04	8	Hours	\$819.28		8010-AGM-Water Operations
314	701620	10	WARD, WALTER PAUL (WALT)	1	24-Jul-04	4	Hours	\$408.63		8010-AGM-Water Operations
315	701620	10	WARD, WALTER PAUL (WALT)	1	07-Aug-04	16	Hours	\$1,628.62		8010-AGM-Water Operations
316	701620	10	WARD, WALTER PAUL (WALT)	1	21-Aug-04	8.5	Hours	\$862.13		8010-AGM-Water Operations
317	701620	10	WARD, WALTER PAUL (WALT)	1	04-Sep-04	20	Hours	\$1,887.36		8010-AGM-Water Operations
318	701620	10	WARD, WALTER PAUL (WALT)	1	18-Sep-04	10	Hours	\$943.68		8010-AGM-Water Operations
319	701620	10	WARD, WALTER PAUL (WALT)	1	02-Oct-04	11	Hours	\$1,038.05		8010-AGM-Water Operations
320	701620	10	WARD, WALTER PAUL (WALT)	1	16-Oct-04	4	Hours	\$377.47		8010-AGM-Water Operations
321	701620	10	WARD, WALTER PAUL (WALT)	1	15-Nov-04	2	Hours	\$186.74		8010-AGM-Water Operations
322	701620	10	WARD, WALTER PAUL (WALT)	1	15-Nov-04	3	Hours	\$285.10		8010-AGM-Water Operations
323	701620	10	WARD, WALTER PAUL (WALT)	1	27-Nov-04	4	Hours	\$377.47		8010-AGM-Water Operations
324	701620	10	WARD, WALTER PAUL (WALT)	1	11-Dec-04	2	Hours	\$168.74		8010-AGM-Water Operations
325	701620	10	WARD, WALTER PAUL (WALT)	1	11-Dec-04	5	Hours	\$471.64		8010-AGM-Water Operations
326	701620	10	WARD, WALTER PAUL (WALT)	1	25-Dec-04	9	Hours	\$849.31		8010-AGM-Water Operations
327	701620	10	WARD, WALTER PAUL (WALT)	1	22-Jan-05	1.5	Hours	\$141.55		8010-AGM-Water Operations
328	701620	10	WARD, WALTER PAUL (WALT)	1	05-Feb-05	4	Hours	\$377.47		8010-AGM-Water Operations
329	701620	10	WARD, WALTER PAUL (WALT)	1	19-Feb-05	3	Hours	\$285.10		8010-AGM-Water Operations
330	701620	10	WARD, WALTER PAUL (WALT)	1	19-Mar-05	4	Hours	\$388.62		8010-AGM-Water Operations
331	701620	10	WARD, WALTER PAUL (WALT)	1	02-Apr-05	4	Hours	\$444.88		8010-AGM-Water Operations
332	701620	10	WARD, WALTER PAUL (WALT)	1	16-Apr-05	7	Hours	\$778.54		8010-AGM-Water Operations
333	701620	10	WARD, WALTER PAUL (WALT)	1	30-Apr-05	6	Hours	\$556.10		8010-AGM-Water Operations
334	701620	10	WARD, WALTER PAUL (WALT)	1	14-May-05	2	Hours	\$251.74		8010-AGM-Water Operations
335	701620	10	WARD, WALTER PAUL (WALT)	1	28-May-05	3	Hours	\$285.10		8010-AGM-Water Operations
					Total Labor			\$46,461.29		
336	701620	10	MILLER, JEFFERY LEE (JEFF)	4	29-May-04	2.6	Hours	\$144.70		8220-Modesto Dom Water
337	701620	10	NIEM, MICHAEL JOHN (MICHAEL)	12	18-Mar-05	2	Hours	\$90.19		8410-Water Use, Planning & Conservation
338	701620	10	DIAS, GREGORY PAUL (GREG)	15	29-Dec-01	0	Hours	\$0.00		8420-Civil Engineering
339	701620	10	DIAS, GREGORY PAUL (GREG)	15	04-Oct-03	0	Hours	\$0.00		8420-Civil Engineering
340	701620	10	DIAS, GREGORY PAUL (GREG)	15	01-Nov-03	0	Hours	\$0.00		8420-Civil Engineering
341	701620	10	WARD, WALTER PAUL (WALT)	15	29-Mar-04	0	Hours	\$0.00		8010-AGM-Water Operations
342	701620	10	WARD, WALTER PAUL (WALT)	15	16-Sep-04	0	Hours	\$0.00		8010-AGM-Water Operations
343	701620	10	DIAS, GREGORY PAUL (GREG)	16	09-Feb-02	0	Hours	\$0.00		8420-Civil Engineering
344	701620	10	DIAS, GREGORY PAUL (GREG)	16	18-Oct-03	0	Hours	\$0.00		8420-Civil Engineering
345	701620	10	DIAS, GREGORY PAUL (GREG)	16	01-Nov-03	0	Hours	\$0.00		8420-Civil Engineering
					Total Misc Labor			\$234.89		
346	701620	10	ACCRUALS/ADJUSTMENTS	111-Labor Accrual/Reversal	31-Dec-04	905.04	Currency	\$905.04	2004 LABOR ACCRUAL - PERIOD 12/26/04 - 12/31/04	0000-Balance Sheet
347	701620	10	ACCRUALS/ADJUSTMENTS	111-Labor Accrual/Reversal	31-Dec-04	470.98	Currency	\$470.98	2004 LABOR ACCRUAL - PERIOD 12/26/04 - 12/31/04	0000-Balance Sheet
348	701620	10	ACCRUALS/ADJUSTMENTS	111-Labor Accrual/Reversal	01-Jan-05	-905.04	Currency	-\$905.04	2004 LABOR ACCRUAL - PERIOD 12/26/04 - 12/31/04	0000-Balance Sheet
349	701620	10	ACCRUALS/ADJUSTMENTS	111-Labor Accrual/Reversal	01-Jan-05	-470.98	Currency	-\$470.98	2004 LABOR ACCRUAL - PERIOD 12/26/04 - 12/31/04	0000-Balance Sheet
350	701620	10	ACCRUALS/ADJUSTMENTS	112-Labor Corrections	05-Mar-05	84	Currency	\$84.00	ADJ FOR RETRO PAY ALLOCATION 12/1/04-3/5/05	8010-AGM-Water Operations
351	701620	10	ACCRUALS/ADJUSTMENTS	112-Labor Corrections	05-Mar-05	252	Currency	\$252.00	ADJ FOR RETRO PAY ALLOCATION 12/1/04-3/5/05	8220-Modesto Dom Water
								\$336.00	ADJ FOR RETRO PAY ALLOCATION 12/1/04-3/5/05	8410-Water Use, Planning & Conservation
352	701620	10	ACCRUALS/ADJUSTMENTS	112-Labor Corrections	05-Mar-05	80	Currency	\$80.00		8420-Civil Engineering
353	701620	10	ACCRUALS/ADJUSTMENTS	112-Labor Corrections	05-Mar-05	1013	Currency	\$1,013.00		8220-Modesto Dom Water
354	701620	10	ACCRUALS/ADJUSTMENTS	112-Labor Corrections	05-Mar-05	115	Currency	\$115.00		8220-Modesto Dom Water
355	701620	10	SMITH CLEARING	112-Labor Corrections	01-Oct-03	2981.12	Currency	\$2,981.12	Sunk Cost 14-Jul-01 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
								\$60.00	Sunk Cost 14-Jul-01 KETSCHER WILLIAM M (BILL)	0000-Balance Sheet
356	701620	10	SMITH CLEARING	112-Labor Corrections	01-Oct-03	576.28	Currency	\$576.28	6.00 HOURS	0000-Balance Sheet
357	701620	10	SMITH CLEARING	112-Labor Corrections	01-Oct-03	2856.91	Currency	\$2,856.91	Sunk Cost 28-Jul-01 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
								\$45.00	45.00 HOURS	0000-Balance Sheet
358	701620	10	SMITH CLEARING	112-Labor Corrections	01-Oct-03	288.14	Currency	\$288.14	4.00 HOURS	0000-Balance Sheet
								\$1,863.20	Sunk Cost 11-Aug-01 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
359	701620	10	SMITH CLEARING	112-Labor Corrections	01-Oct-03	1863.20	Currency	\$1,863.20	30.00 HOURS	0000-Balance Sheet
								\$993.71	Sunk Cost 25-Aug-01 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
360	701620	10	SMITH CLEARING	112-Labor Corrections	01-Oct-03	893.71	Currency	\$893.71	16.00 HOURS	0000-Balance Sheet

Line No	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Burdened Cost	Comment	Expend Org
361	701620	1.0	SMITH CLEARING	112-Labor Corrections	01-Oct-03	1490.58	Currency	\$1,480.56	Sunk Cost 9-Sep-01 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
362	701620	1.0	SMITH CLEARING	112-Labor Corrections	01-Oct-03	200.85	Currency	\$200.69	24.00 HOURS	0000-Balance Sheet
363	701620	1.0	SMITH CLEARING	112-Labor Corrections	01-Oct-03	267.53	Currency	\$267.53	Sunk Cost 14-Jul-01 LIMA, JOSEPH M (JOE) 3.00	0000-Balance Sheet
364	701620	1.0	SMITH CLEARING	112-Labor Corrections	01-Oct-03	68.18	Currency	\$68.88	Sunk Cost 28-Jul-01 LIMA, JOSEPH M (JOE) 4.00	0000-Balance Sheet
365	701620	1.0	SMITH CLEARING	112-Labor Corrections	01-Oct-03	133.77	Currency	\$133.77	Sunk Cost 11-Aug-01 LIMA, JOSEPH M (JOE) 1.00	0000-Balance Sheet
366	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	1374.46	Currency	\$1,374.45	Sunk Cost 22-Sep-01 LIMA, JOSEPH M (JOE) 2.00	0000-Balance Sheet
367	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	2405.29	Currency	\$2,405.29	Sunk Cost 26-Dec-02 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
368	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	728.89	Currency	\$728.89	20.00 HOURS	0000-Balance Sheet
369	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	1354.66	Currency	\$1,354.66	Sunk Cost 14-Dec-02 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
370	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	482.58	Currency	\$482.58	35.00 HOURS	0000-Balance Sheet
371	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	1354.66	Currency	\$1,354.66	Sunk Cost 30-Nov-02 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
372	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	2186.51	Currency	\$2,186.51	Sunk Cost 16-Nov-02 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
373	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	289.82	Currency	\$289.82	20.50 HOURS	0000-Balance Sheet
374	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	4483.48	Currency	\$4,483.48	Sunk Cost 02-Nov-02 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
375	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	1817.22	Currency	\$1,817.22	Sunk Cost 19-Oct-02 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
376	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	1585.93	Currency	\$1,585.93	Sunk Cost 27-Jul-02 DIAS, GREGORY PAUL (GREG)	0000-Balance Sheet
377	701620	1.0	SMITH CLEARING	112-Labor Corrections	02-Oct-03	2511.08	Currency	\$2,511.08	Sunk Cost 29-Jun-02 KETSCHER, WILLIAM M (BILL)	0000-Balance Sheet
378				Total Labor Corrections				\$33,854.08	4.00 HOURS	0000-Balance Sheet
379				Total Labor				\$420,980.58		
380										
381	701620	1.1	BANK ONE, NA	201-Materials	15-Jan-04	440.22	Currency	\$440.22	LINE# 381-405 ARE MEMBRANE PILOT PLANT	
382	701620	1.1	BANK ONE, NA	201-Materials	15-Jan-04	375.14	Currency	\$375.14	MCMASTER-CARR SUPPLY 14-JAN-04	8220-Modesto Dom Water
383	701620	1.1	BANK ONE, NA	201-Materials	16-Jan-04	174.88	Currency	\$174.88	HARRINGTON PLASTICS 14-JAN-04	8220-Modesto Dom Water
384	701620	1.1	BANK ONE, NA	201-Materials	22-Jan-04	-18	Currency	-\$18.00	MCMASTER-CARR SUPPLY 15-JAN-04	8220-Modesto Dom Water
385	701620	1.1	BANK ONE, NA	201-Materials	22-Jan-04	62.72	Currency	\$62.72	HARRINGTON PLASTICS 21-JAN-04	8220-Modesto Dom Water
386	701620	1.1	BANK ONE, NA	201-Materials	22-Jan-04	1275.12	Currency	\$1,275.12	ORCHARD SUPPLY #201 20-JAN-04	8220-Modesto Dom Water
387	701620	1.1	BANK ONE, NA	201-Materials	31-Jan-04	185.09	Currency	\$185.09	USA BLUE BOOK 21-JAN-04	8220-Modesto Dom Water
388	701620	1.1	BANK ONE, NA	201-Materials	14-Jan-05	716.04	Currency	\$716.04	USA BLUE BOOK	8220-Balance Sheet
389	701620	1.1	BANK ONE, NA	201-Materials	17-Jan-05	324.57	Currency	\$324.57	MCMASTER-CARR SUPPLY 13 JAN-05	8220-Modesto Dom Water
390	701620	1.0	CENTER STATE PIPE & SUPPLY	201-Materials	30-Dec-03	1100.71	Currency	\$1,100.71	MCMASTER-CARR SUPPLY 14-JAN-05	8220-Modesto Dom Water
391	701620	1.0	CENTER STATE PIPE & SUPPLY	201-Materials	07-Jan-04	92.3	Currency	\$92.30	PO 44100	0000-Balance Sheet
392	701620	1.0	CENTER STATE PIPE & SUPPLY	201-Materials	07-Jan-04	36.61	Currency	\$36.61	PO 44100	0000-Balance Sheet
393	701620	1.0	CENTER STATE PIPE & SUPPLY	201-Materials	14-Jan-04	6.12	Currency	\$6.12	PO 44100	0000-Balance Sheet
394	701620	1.1	CENTER STATE PIPE & SUPPLY	201-Materials	28-Jan-04	150.49	Currency	\$150.49	PO 44100	0000-Balance Sheet
395	701620	1.1	CENTER STATE PIPE & SUPPLY	201-Materials	01-Feb-04	4.08	Currency	\$4.08	PO 44100	0000-Balance Sheet
396	701620	1.1	CENTER STATE PIPE & SUPPLY	201-Materials	01-Feb-04	14.18	Currency	\$14.18	PO 44100	0000-Balance Sheet
397	701620	1.1	SAFE-T-LITE	201-Materials	22-Oct-04	1407.2	Currency	\$1,407.20	Total Center State Pipe Purchases	0000-Balance Sheet
398	701620	1.0	WARDEN S OFFICE	201-Materials	14-Feb-04	47.58	Currency	\$47.58	Total Safe-T-Light Material Purchases	0000-Balance Sheet
399	701620	1.0	WATERFORD FARM SUPPLY	201-Materials	07-Jan-04	161.5	Currency	\$161.50	Total Warden's Office Material Purchases	0000-Balance Sheet
400	701620	1.0	WILLE ELECTRIC SUPPLY COMPANY, INC	201-Materials	07-Jan-04	3.89	Currency	\$3.89	Total Waterford Farm Supply Material Purchases	0000-Balance Sheet
401	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	201-Materials	13-Jan-04	275.84	Currency	\$275.84	PO 43410	0000-Balance Sheet
402	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	201-Materials	13-Jan-04	209.58	Currency	\$209.58	PO 43410	0000-Balance Sheet
403	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	201-Materials	13-Jan-04	81.42	Currency	\$81.42	PO 43410	0000-Balance Sheet
404	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	201-Materials	28-Jan-04	446.94	Currency	\$446.94	PO 43410	0000-Balance Sheet
405	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	201-Materials	28-Jan-04	446.94	Currency	\$446.94	PO 43410	0000-Balance Sheet
406	701620	1.0	BANK ONE, NA	203-Stationary Supplies	15-Mar-04	481.35	Currency	\$481.35	Total Wille Electric Supply Purchases	8220-Modesto Dom Water
407	701620	1.0	OFFICE DEPOT BUSINESS SERVICES DIVISION - 1181	204-Office Supplies	01-Feb-04	12.54	Currency	\$12.54	DITTO# 11-MAR-04	
408	701620	1.0	FEDERAL EXPRESS CORPORATION	205-Postage/Express	21-Dec-01	10.74	Currency	\$10.74	COLOR COPIES FOR DSEIR	
409	701620	1.0	FEDERAL EXPRESS CORPORATION	205-Postage/Express	18-Oct-02	15.28	Currency	\$15.28	DCM WATER PHASE 2 / SUMMARY BILLING - 1/104 - 1/31/04	
410	701620	1.0	FEDERAL EXPRESS CORPORATION	205-Postage/Express	18-Jul-03	11.83	Currency	\$11.83	563485300 / GREG DIAS	0000-Balance Sheet
411	701620	1.0	FEDERAL EXPRESS CORPORATION	205-Postage/Express	21-Nov-03	12.39	Currency	\$12.39	000977240305 / INVOICE SUMMARY OCT 16 2002 /	0000-Balance Sheet
412	701620	1.0	FEDERAL EXPRESS CORPORATION	205-Postage/Express	19-Dec-03	13.46	Currency	\$13.46	ACCT #0952-0270-5 / SUMMARY THROUGH	0000-Balance Sheet
413	701620	1.0	FEDERAL EXPRESS CORPORATION	205-Postage/Express	18-Feb-05	12.21	Currency	\$12.21	G DIAS / ACCT #0952-0270-5 / SUMMARY THROUGH	0000-Balance Sheet
414	701620	1.1	FEDERAL EXPRESS CORPORATION	205-Postage/Express	18-Feb-05	22.75	Currency	\$22.75	G DIAS / ACCT #0952-0270-5 / SUMMARY NOV 21,	0000-Balance Sheet

Line No	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Burdened Cost	Comment	Expend Dtl
415	701620	1.0	FEDERAL EXPRESS CORPORATION	205 Postage/Express	21-Mar-05	11.19	Currency	\$11.18	G DIAS / ACCT 0952-0270-5 / SUMMARY 3/21/05	0000-Balance Sheet
416	701620	1.0	FEDERAL EXPRESS CORPORATION	205 Postage/Express	21-Mar-05	17.30	Currency	\$17.30	W WARD / ACCT 0952-0270-5 / SUMMARY 3/21/05	0000-Balance Sheet
417	701620	1.0	FEDERAL EXPRESS CORPORATION	205 Postage/Express	21-Mar-05	25.96	Currency	\$25.96	G DIAS / ACCT 0952-0270-5 / SUMMARY 3/21/05	0000-Balance Sheet
418	701620	1.1	FEDERAL EXPRESS CORPORATION	205 Postage/Express	21-Mar-05	18.07	Currency	\$18.07	C MDAH / ACCT 0952-0270-5 / SUMMARY 3/21/05	0000-Balance Sheet
				Total Fed Ex Postage				\$170.97		
418	701620	1.1	BANK ONE, NA	207 Freight	03-Feb-04	43.1	Currency	\$43.10	LINES 419-436 ARE MEMBRANE PILOT PLANT	8220-Modesto Dom Water
				Total Bank One Freight				\$43.10	PEDEX FREIGHT WEST INC 02-FEB-04	
420	701620	1.0	BANK ONE, NA	214 Repair Parts	20-Dec-03	1014.79	Currency	\$1,014.78	USA BLUE BOOK 23 DEC-03	8220-Modesto Dom Water
421	701620	1.1	BANK ONE, NA	214 Repair Parts	05-Feb-04	21.45	Currency	\$21.45	ORCHARD SUPPLY #201 03-FEB-04	8220-Modesto Dom Water
422	701620	1.1	BANK ONE, NA	214 Repair Parts	06-Feb-04	26.46	Currency	\$26.46	ORCHARD SUPPLY #201 04-FEB-04	8220-Modesto Dom Water
423	701620	1.1	BANK ONE, NA	214 Repair Parts	23-Feb-04	514.65	Currency	\$514.65	USA BLUE BOOK 19-FEB-04	8220-Modesto Dom Water
				Total Bank One Repair Parts				\$1,606.24		
424	701620	1.1	WATERFORD FARM SUPPLY	214 Repair Parts	09-Jul-04	16.83	Currency	\$16.83	PO 43010 / REF 92030	0000-Balance Sheet
				Total Waterford Farm Supply Repair Parts				\$16.83		
425	701620	1.1	BANK ONE, NA	217 Small Tools	04-Oct-04	162.15	Currency	\$162.15	MCMASTER-CARR SUPPLY 01-OCT-04	8220-Modesto Dom Water
426	701620	1.1	BANK ONE, NA	217 Small Tools	20-Oct-04	1303.8	Currency	\$1,303.80	TRANSCAT 18-OCT-04	8220-Modesto Dom Water
				Total Bank One Small Tool Purchases				\$1,465.95		
427	701620	1.1	SAFE T-LITE	248 Safety Equipment Cost	27-Apr-04	1299	Currency	\$1,299.00	PO 42830	0000-Balance Sheet
				Total Safe T-Lite Safety Equipment				\$1,299.00		
428	701620	1.0	BANK ONE, NA	255-Material Sales Tax	31-Dec-03	67.45	Currency	\$67.45	KENNETH EDWARDS 31-DEC-03	0000-Balance Sheet
429	701620	1.1	BANK ONE, NA	255-Material Sales Tax	31-Jan-04	84.81	Currency	\$84.81	JEFF L MILLER 31-JAN-04	0000-Balance Sheet
430	701620	1.1	BANK ONE, NA	255-Material Sales Tax	31-Jan-04	6.48	Currency	\$6.48	KENNETH EDWARDS 31-JAN-04	0000-Balance Sheet
431	701620	1.1	BANK ONE, NA	255-Material Sales Tax	29-Feb-04	35.21	Currency	\$35.21	SALES TAX / USA BLUE BOOK 19-FEB-04	0000-Balance Sheet
432	701620	1.0	CENTER STATE PIPE & SUPPLY	255-Material Sales Tax	30-Dec-03	81.18	Currency	\$81.18	PO 44100	0000-Balance Sheet
433	701620	1.0	CENTER STATE PIPE & SUPPLY	255-Material Sales Tax	07-Jan-04	8.81	Currency	\$8.81	PO 44100	0000-Balance Sheet
434	701620	1.0	CENTER STATE PIPE & SUPPLY	255-Material Sales Tax	07-Jan-04	2.7	Currency	\$2.70	PO 44100	0000-Balance Sheet
435	701620	1.0	CENTER STATE PIPE & SUPPLY	255-Material Sales Tax	14-Jan-04	0.45	Currency	\$0.45	PO 44100	0000-Balance Sheet
436	701620	1.1	CENTER STATE PIPE & SUPPLY	255-Material Sales Tax	16-Jan-04	11.1	Currency	\$11.10	PO 44100	0000-Balance Sheet
437	701620	1.1	CENTER STATE PIPE & SUPPLY	255-Material Sales Tax	01-Feb-04	0.33	Currency	\$0.30	PO 44100	0000-Balance Sheet
438	701620	1.1	CENTER STATE PIPE & SUPPLY	255-Material Sales Tax	01-Feb-04	1.05	Currency	\$1.05	PO 44100	0000-Balance Sheet
				Total Sales Tax				\$686.80	DOM WATER PHASE 2 / SUMMARY BILLING - 1/1/04	
439	701620	1.0	OFFICE DEPOT BUSINESS SERVICES DIVISION 1161	255-Material Sales Tax	01-Feb-04	0.92	Currency	\$0.92	1/31/04	0000-Balance Sheet
440	701620	1.1	SAFE T-LITE	255-Material Sales Tax	27-Apr-04	95.81	Currency	\$95.81	PO 42930	0000-Balance Sheet
441	701620	1.1	SAFE T-LITE	255-Material Sales Tax	22-Oct-04	103.78	Currency	\$103.78	PO 42930	0000-Balance Sheet
442	701620	1.0	WARDEN'S OFFICE	255-Material Sales Tax	04-Feb-04	5.93	Currency	\$5.92	PO 44070 / WATER OPS	0000-Balance Sheet
443	701620	1.0	WATERFORD FARM SUPPLY	255-Material Sales Tax	07-Jan-04	11.91	Currency	\$11.91	PO 43010	0000-Balance Sheet
444	701620	1.1	WATERFORD FARM SUPPLY	255-Material Sales Tax	09-Jul-04	1.24	Currency	\$1.24	PO 43010 / REF 92030	0000-Balance Sheet
445	701620	1.0	WILLE ELECTRIC SUPPLY COMPANY, INC	255-Material Sales Tax	07-Jan-04	0.28	Currency	\$0.28	PO 43410	0000-Balance Sheet
446	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	255-Material Sales Tax	13-Jan-04	20.4	Currency	\$20.40	PO 43410	0000-Balance Sheet
447	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	255-Material Sales Tax	13-Jan-04	15.46	Currency	\$15.46	PO 43410	0000-Balance Sheet
448	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	255-Material Sales Tax	13-Jan-04	9.01	Currency	\$9.01	PO 43410	0000-Balance Sheet
449	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	255-Material Sales Tax	29-Jan-04	7.98	Currency	\$7.98	PO 43410	0000-Balance Sheet
450	701620	1.1	WILLE ELECTRIC SUPPLY COMPANY, INC	255-Material Sales Tax	29-Jan-04	32.98	Currency	\$32.98	PO 43410	0000-Balance Sheet
451				Total Sales Tax				\$686.80		
452				Total Materials and Supplies				\$13,328.60		
453										
454	701620	1.0	BLACK & VEATCH	401-Consulting	05-Sep-03	3050	Currency	\$3,050.00	REF 85518 / 8/1/03-8/28/03 / PROF SVCS / WTP	0000-Balance Sheet
									CLIENT REF 65518 / PROF SVCS 8/28/03-8/28/03 /	
455	701620	1.0	BLACK & VEATCH	401-Consulting	02-Oct-03	14761.86	Currency	\$14,761.85	WTP PHASE 2	0000-Balance Sheet
456	701620	1.0	BLACK & VEATCH	401-Consulting	06-Nov-03	56476.2	Currency	\$56,476.20	PROF SVCS / MRWTP PHASE 2 / 9/28/03-10/31/03	0000-Balance Sheet
457	701620	1.0	BLACK & VEATCH	401-Consulting	04-Dec-03	27361.5	Currency	\$27,361.50	PROFESSIONAL SERVICES NOV 03 BILLING / MRWTP PHASE TWO EXPANSION PROJECT	0000-Balance Sheet
458	701620	1.0	BLACK & VEATCH	401-Consulting	31-Dec-03	5570	Currency	\$5,570.00	PROFESSIONAL SERVICES MRWTP PHASE TWO EXPANSION PROJECT / DEC 03 BILLING	0000-Balance Sheet
459	701620	1.1	BLACK & VEATCH	401-Consulting	11-Feb-04	63533.2	Currency	\$63,533.20	PROF SVCS 12/28/03 1/30/04 FOR PHASE 2 EXPANSION MRWTP	0000-Balance Sheet
460	701620	1.1	BLACK & VEATCH	401-Consulting	05-Mar-04	48858	Currency	\$48,858.00	PROFESSIONAL SERVICES / FEB 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT	0000-Balance Sheet
461	701620	1.1	BLACK & VEATCH	401-Consulting	05-Apr-04	25788.81	Currency	\$25,788.81	PROF SVCS 2/27/04-3/26/04 FOR MRWTP PHASE 2 EXPANSION	0000-Balance Sheet
462	701620	1.1	BLACK & VEATCH	401-Consulting	13-May-04	33628.68	Currency	\$33,628.68	PROFESSIONAL SERVICES APR 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT	0000-Balance Sheet
463	701620	1.1	BLACK & VEATCH	401-Consulting	03-Jun-04	38684.67	Currency	\$38,684.67	PROFESSIONAL SERVICES MAY 04 BILLING / MRWTP PHASE TWO	0000-Balance Sheet
464	701620	1.1	BLACK & VEATCH	401-Consulting	05-Jul-04	15218.67	Currency	\$15,218.67	PROFESSIONAL SERVICES / JUN 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT	0000-Balance Sheet
465	701620	1.1	BLACK & VEATCH	401-Consulting	04-Aug-04	32358.65	Currency	\$32,358.65	PROFESSIONAL SERVICES / JUL 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT	0000-Balance Sheet
466	701620	1.1	BLACK & VEATCH	401-Consulting	02-Sep-04	34883.74	Currency	\$34,883.74	PROFESSIONAL SERVICES / MRWTP PHASE TWO EXPANSION PROJECT AUG 04 BILLING	0000-Balance Sheet
467	701620	1.1	BLACK & VEATCH	401-Consulting	30-Sep-04	59784.5	Currency	\$59,784.50	PROFESSIONAL SERVICES / AUG 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT	0000-Balance Sheet
468	701620	1.1	BLACK & VEATCH	401-Consulting	08-Nov-04	61809.18	Currency	\$61,809.18	PROF SVCS / 9/24/04 10/28/04 / MRWTP PHASE 2 EXPANSION PROJECT	0000-Balance Sheet
469	701620	1.1	BLACK & VEATCH	401-Consulting	01-Dec-04	25424.5	Currency	\$25,424.50	PROFESSIONAL SERVICES / NOV 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT	0000-Balance Sheet
470	701620	1.1	BLACK & VEATCH	401-Consulting	31-Dec-04	18609.58	Currency	\$18,609.58	PROF SVCS / MRWTP PHASE 2 EXP PROJ / 11/28/04	0000-Balance Sheet

Line No	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Burdened Cost	Comment	Expend Org
471	701620	1.1	BLACK & VEATCH	401-Consulting	01-Apr-05	15532.81	Currency	\$15,532.81	CLIENT 65518 / PROF SVCS / MRWTP PHASE 2 EXP PROJ / 1/105-2/4/05	0000-Balance Sheet
472	701620	1.1	BLACK & VEATCH	401-Consulting	01-Apr-05	35873.36	Currency	\$35,873.36	CLIENT 65518 / PROF SVCS / MRWTP PHASE 2 EXP PROJ / 2/505-3/4/05	0000-Balance Sheet
				Total Black & Veatch Consulting				\$51,406.17		
	701620	1.1	JOHNSTON, WILLIAM R. P. E. RESEARCH & CONSULTING	401-Consulting	31-Dec-04	10075.00	Currency	\$10,075.00	77 3 hrs @ \$130 per hr for Water Rights consulting	
			JOHNSTON, WILLIAM R. P. E. RESEARCH & CONSULTING	401-Consulting	03-May-05	4200.00	Currency	\$4,200.00	30 hrs @ \$140 per hr for Water Rights consulting	
				Total William Johnston Consulting				\$14,275.00		
473	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	14-Jan-04	8411.8	Currency	\$8,411.80	PROFESSIONAL SERVICES - MRWTP PHASE TWO EXPANSION PROJECT SEIR / NOV 24- DEC 29, 2003	0000-Balance Sheet
474	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	08-Feb-04	13196.85	Currency	\$13,196.85	PROF SVCS - MRWTP PHASE 2 EXPANSION PROJECT SEIR / 12/28/03-1/25/04	0000-Balance Sheet
475	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	10-Mar-04	35368.47	Currency	\$35,368.47	PROFESSIONAL SERVICES - FEB 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR	0000-Balance Sheet
476	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	08-Apr-04	13399.51	Currency	\$13,399.51	PROFESSIONAL SERVICES - MAR 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR	0000-Balance Sheet
477	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	10-May-04	19482.78	Currency	\$19,482.78	PROFESSIONAL SERVICES - APR 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR	0000-Balance Sheet
478	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	08-Jun-04	5366.49	Currency	\$5,366.49	PROFESSIONAL SERVICES - MAY 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR	0000-Balance Sheet
479	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	13-Jul-04	7978.92	Currency	\$7,978.92	JUN 04 BILLING / MRWTP PHASE TWO EXPANSIONS PROJECT SEIR	0000-Balance Sheet
480	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	16-Aug-04	4255.84	Currency	\$4,255.84	PROFESSIONAL SERVICES / JUL 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR	0000-Balance Sheet
481	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	01-Sep-04	17835.27	Currency	\$17,835.27	PROFESSIONAL SERVICES / AUG 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR	0000-Balance Sheet
482	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	13-Oct-04	22229.32	Currency	\$22,229.32	PROFESSIONAL SERVICES - AUG 04 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR	0000-Balance Sheet
483	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	03-Nov-04	11132.79	Currency	\$11,132.79	PROF SVCS - R27704-102404 / MRWTP PHASE 2 EXPANSION PROJECT SEIR	0000-Balance Sheet
484	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	01-Dec-04	4948.02	Currency	\$4,948.02	PROFESSIONAL SERVICES / NOV 04 BILLING / MRWTP - PHASE TWO EXPANSION PROJECT SEIR	0000-Balance Sheet
485	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	10-Jan-05	11080.32	Currency	\$11,080.32	PROF SVCS - 11/22/04-12/28/04 / MRWTP PHASE 2 EXPANSION PROJECT SEIR	0000-Balance Sheet
486	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	04-Feb-05	3400.14	Currency	\$3,400.14	PROF SVCS - 12/27/04-1/23/05 / MRWTP PHASE 2 EXPANSION PROJECT SEIR	0000-Balance Sheet
487	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	01-Mar-05	2909.1	Currency	\$2,909.10	PROF SVCS - 1/24/05-2/20/05 / MRWTP PHASE 2 EXPANSION PROJECT SEIR	0000-Balance Sheet
488	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	12-Apr-05	1495.47	Currency	\$1,495.47	PROF SVCS - 2/21/05-3/27/05 / MRWTP PHASE 2 EXPANSION PROJECT SEIR	0000-Balance Sheet
489	701620	1.1	JONES & STOKES ASSOCIATES	401-Consulting	03-May-05	705.18	Currency	\$705.18	PROF SVCS - 3/28/05-4/24/05 / MRWTP PHASE 2 EXPANSION PROJECT SEIR	0000-Balance Sheet
				Total Jones & Stokes Consulting				\$182,872.97		
490	701620	1.1	KATZ & ASSOCIATES	401-Consulting	01-Apr-04	2145	Currency	\$2,145.00	PROF SVCS OF CRAG MOYLE THRU 2/28/04	0000-Balance Sheet
491	701620	1.1	KATZ & ASSOCIATES	401-Consulting	01-Apr-04	163.7	Currency	\$163.70	PROFESSIONAL SERVICES - MAR 04 BILLING / PROF SVCS OF CRAG MOYLE THRU 2/28/04	0000-Balance Sheet
492	701620	1.1	KATZ & ASSOCIATES	401-Consulting	01-Jun-04	278.38	Currency	\$278.38	PROFESSIONAL SERVICES / APR 04 BILLING / CLIENT #SC1123L	0000-Balance Sheet
				Total Katz & Associates Consulting				\$2,587.08		
493	701620	1.1	AL CALA & ASSOCIATES	425-Other Outside Services	31-Dec-04	230	Currency	\$230.00	LINE 493 IS COURT REPORTER 2 PUBLIC MTGS FOR MRWTP PHASE 2 EXPANSION COURT REPORTER	0000-Balance Sheet
494	701620	1.1	BANK ONE, NA	425-Other Outside Services	12-Apr-04	10.74	Currency	\$10.74	AUDIO VIDEO HQ 09 APR-04	8220-Modesto Dam Water
495	701620	1.1	BANK ONE, NA	425-Other Outside Services	12-Apr-04	42.95	Currency	\$42.95	AUDIO VIDEO HQ 09 APR-04	8220-Modesto Dam Water
				Total Bank One Outside Services				\$53.69		
									LNES 496-520 ARE MEMBRANE PILOT PLANT COSTS FOR SIMULATED DISTRIBUTION STUDIES	
496	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	28-Aug-04	900	Currency	\$900.00	PO 41760	0000-Balance Sheet
497	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	01-Feb-05	300	Currency	\$300.00	PO 41760	0000-Balance Sheet
498	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	07-Feb-05	240	Currency	\$240.00	PO 41760	0000-Balance Sheet
499	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	07-Feb-05	320	Currency	\$320.00	PO 41760	0000-Balance Sheet
500	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	07-Feb-05	565	Currency	\$565.00	PO 41760	0000-Balance Sheet
501	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	09-Feb-05	390	Currency	\$390.00	PO 41760	0000-Balance Sheet
502	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	13-Feb-05	239	Currency	\$239.00	PO 41760	0000-Balance Sheet
503	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	23-Feb-05	95	Currency	\$95.00	PO 41760	0000-Balance Sheet
504	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	24-Feb-05	170	Currency	\$170.00	PO 41760	0000-Balance Sheet
505	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	25-Feb-05	900	Currency	\$900.00	PO 41760	0000-Balance Sheet
506	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	01-Mar-05	35	Currency	\$35.00	PO 41760	0000-Balance Sheet
507	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	10-Mar-05	2265	Currency	\$2,265.00	PO 41760	0000-Balance Sheet
508	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	17-Mar-05	207.5	Currency	\$207.50	PO 41760	0000-Balance Sheet
509	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	21-Mar-05	185	Currency	\$185.00	PO 41760 / SUBM #2005030795	0000-Balance Sheet
510	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	21-Mar-05	185	Currency	\$185.00	PO 41760 / SUBM #2005030923	0000-Balance Sheet
511	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	22-Mar-05	517	Currency	\$517.00	PO 41760 / SUBM #2005021295	0000-Balance Sheet
512	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	24-Mar-05	207.5	Currency	\$207.50	PO 41760	0000-Balance Sheet
513	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	07-Apr-05	230	Currency	\$230.00	PO 41760	0000-Balance Sheet
514	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	11-Apr-05	2250	Currency	\$2,250.00	PO 41760	0000-Balance Sheet
515	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	14-Apr-05	155	Currency	\$155.00	PO 41760	0000-Balance Sheet
516	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	21-Apr-05	185	Currency	\$185.00	PO 41760	0000-Balance Sheet
517	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	06-May-05	339	Currency	\$339.00	PO 41760	0000-Balance Sheet
518	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	11-May-05	445	Currency	\$445.00	PO 41760	0000-Balance Sheet
519	701620	1.1	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	24-May-05	495	Currency	\$495.00	PO 41760	0000-Balance Sheet

Line No	Project	Task	Employee/Supplier	Expend Type	Item Date	Quantity	UOM	Burdened Cost	Comment	Expend Org
520	701620	11	BSK ANALYTICAL LABORATORIES	425-Other Outside Services	24-May-05	3075	Currency	\$3,075.00	PO 41760	0000-Balance Sheet
				Total BSK Analytical Lab Outside Services				\$14,619.00		
521	701620	10	CALIFORNIA CAD SOLUTIONS	425-Other Outside Services	28-Dec-04	2815	Currency	\$2,815.00	SCAN, PLACE & RUBBER SHEET 10 AERIAL PHOTOS	0000-Balance Sheet
				Total California CAD Solutions Outside Services				\$2,815.00	SCAN, PLACE & RUBBER SHEET 10 AERIAL PHOTOS	0000-Balance Sheet
522	701620	10	MARTINO GRAPHIC DESIGN	425-Other Outside Services	08-Jun-04	1779.82	Currency	\$1,779.82	PO 44563 / WTP NEWSLETTER	0000-Balance Sheet
				Total Martino Graphic Design Outside Services				\$1,779.82		
523	701620	10	SMITH CLEARING	425-Other Outside Services	02-Oct-03	1715	Currency	\$1,715.00	Sunk Cost 01-Jun-02 KATZ & ASSOCIATES	0000-Balance Sheet
524	701620	10	SMITH CLEARING	425-Other Outside Services	02-Oct-03	6701.25	Currency	\$6,701.25	Sunk Cost 01-Jun-02 KATZ & ASSOCIATES	0000-Balance Sheet
525	701620	10	SMITH CLEARING	425-Other Outside Services	02-Oct-03	808.25	Currency	\$808.25	Sunk Cost 01-Jun-02 KATZ & ASSOCIATES	0000-Balance Sheet
526	701620	10	SMITH CLEARING	425-Other Outside Services	02-Oct-03	2572.34	Currency	\$2,572.34	Sunk Cost 01-Jun-02 KATZ & ASSOCIATES	0000-Balance Sheet
527	701620	10	SMITH CLEARING	425-Other Outside Services	02-Oct-03	5290.91	Currency	\$5,290.91	Sunk Cost 01-Jun-02 KATZ & ASSOCIATES	0000-Balance Sheet
528	701620	10	SMITH CLEARING	425-Other Outside Services	02-Oct-03	-4544.17	Currency	-\$4,544.17	Sunk Cost 10-Jun-02 ACCOUNTS RECEIVABLE	0000-Balance Sheet
				Total Financial Adjustments to Outside Services				\$8,544.18		
529	701620	10	CALIFORNIA CAD SOLUTIONS	455-Outside Services Sales Tax	28-Dec-04	1.11	Currency	\$1.11	SCAN, PLACE & RUBBER SHEET 10 AERIAL PHOTOS	0000-Balance Sheet
530	701620	10	MARTINO GRAPHIC DESIGN	455-Outside Services Sales Tax	08-Jun-04	131.27	Currency	\$131.27	PO 44563 / WTP NEWSLETTER	0000-Balance Sheet
531				Total Outside Services Sales Tax				\$132.38		
532				Total Outside Services				\$345,089.31		
533										
534	701620	11	AMERICAN EXPRESS	501-Transportation-Commercial	28-Feb-04	292.3	Currency	\$292.30	LINE# 634-638 Southdale Wtr Campus; Mass CAP	0000-Balance Sheet
535	701620	11	AMERICAN EXPRESS	501-Transportation-Commercial	28-Feb-04	20	Currency	\$20.00	G DIAS / ACCT #3782-911358-11007 / FEB 04 BILLING	0000-Balance Sheet
									SERVICE FEE / ACCT #3782-911358-11007 / FEB 04	
									BILLING	
536	701620	11	AMERICAN EXPRESS	501-Transportation-Commercial	28-Feb-04	40	Currency	\$40.00	SERVICE FEE / ACCT #3782-911358-11007 / FEB 04	0000-Balance Sheet
537	701620	11	AMERICAN EXPRESS	501-Transportation-Commercial	28-Feb-04	255.3	Currency	\$255.30	BILLING	0000-Balance Sheet
538	701620	11	AMERICAN EXPRESS	501-Transportation-Commercial	28-Feb-04	255.3	Currency	\$255.30	P RYAN / ACCT #3782-911358-11007 / FEB 04	0000-Balance Sheet
539	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Jun-04	209.7	Currency	\$209.70	W WARD / ACCT #3782-911358-11007 / MAY 04	0000-Balance Sheet
540	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Jun-04	209.7	Currency	\$209.70	G DIAS / ACCT #3782-911358-11007 / MAY 04	0000-Balance Sheet
541	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Jun-04	209.7	Currency	\$209.70	P RYAN / ACCT #3782-911358-11007 / MAY 04	0000-Balance Sheet
542	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Jun-04	-209.7	Currency	-\$209.70	P RYAN / ACCT #3782-911358-11007 / MAY 04	0000-Balance Sheet
									K EDWARDS / ACCT #3782-911358-11007 / MAY 04	
543	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Jun-04	209.7	Currency	\$209.70	BILLING	0000-Balance Sheet
544	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Jun-04	209.7	Currency	\$209.70	W WARD / ACCT #3782-911358-11007 / MAY 04	0000-Balance Sheet
545	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Jun-04	100	Currency	\$100.00	W WARD / ACCT #3782-911358-11007 / MAY 04	0000-Balance Sheet
546	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Mar-05	138.99	Currency	\$138.99	P RYAN / ACCT #3782-911358-11007 / FEB 05 BILLING	0000-Balance Sheet
									SERVICE CHARGE / ACCT #3782-911358-11007 / FEB 05	
547	701620	10	AMERICAN EXPRESS	501-Transportation-Commercial	01-Mar-05	20	Currency	\$20.00	05 BILLING	0000-Balance Sheet
									P RYAN / ACCT #3782-911358-11007 / FEB 05 BILLING	
									SERVICE CHARGE	
									K EDWARDS / ACCT #3782-911358-11007 / FEB 05	
									J MALLER / ACCT #3782-911358-11007 / FEB 05	
548										
549				Total Transportation Costs				\$2,856.26		
550										
551	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	11-Jan-02	68.81	Currency	\$68.81	THE FRUIT YARD 02-JAN-02 ENGR SEL PROCESS	5220-Accounting/Budgeting
552	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	17-Jan-02	19.88	Currency	\$19.88	THE FRUIT YARD 17-JAN-02 ENGR SEL PROCESS	5220-Accounting/Budgeting
553	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	12-May-03	34.94	Currency	\$34.94	THE FRUIT YARD 08-MAY-03 - GEDA RFP	8420-Civil Engineering
554	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	09-Jun-03	29.39	Currency	\$29.39	PICCADILLY DELI & SAND 06-JUN-03 - EIR	8420-Civil Engineering
555	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	24-Nov-03	63.27	Currency	\$63.27	SMART & FINAL CO. SCL 21-NOV-03	8010-AGM Water Operations
556	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	29-Jan-04	35.94	Currency	\$35.94	PICCADILLY DELI 27-JAN-04	8220-Modesto Dom Water
557	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	04-Feb-04	72.73	Currency	\$72.73	PICCADILLY DELI 02-FEB-04 EROOM TRAINING	8220-Modesto Dom Water
									LINE# 688-661PHOENIX FIELD TRIP	
558	701620	11	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	27-Feb-04	36	Currency	\$36.00	FIVE STAR PARKING 09-10-07 28-FEB-04	8220-Modesto Dom Water
559	701620	11	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	27-Feb-04	98.6	Currency	\$98.60	AMERISLITES TEMPE 25-FEB-04	8220-Modesto Dom Water
560	701620	11	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	27-Feb-04	98.6	Currency	\$98.60	AMERISLITES TEMPE 25-FEB-04	8220-Modesto Dom Water
561	701620	11	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	27-Feb-04	98.6	Currency	\$98.60	AMERISLITES TEMPE 25-FEB-04	8220-Modesto Dom Water
562	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	01-Oct-04	104.47	Currency	\$104.47	PICCADILLY DELI 28-SEP-04	8220-Modesto Dom Water
563	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	20-Oct-04	45.38	Currency	\$45.38	PICCADILLY DELI 18-OCT-04	8220-Modesto Dom Water
564	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	16-Dec-04	23.01	Currency	\$23.01	SMART & FINAL CO. SCL 14-DEC-04	8220-Modesto Dom Water
									LINE# 686-670 SALT LAKE CITY FIELD TRIP	
565	701620	11	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	21-Feb-05	91.19	Currency	\$91.19	LITTLE AMERICA SLC LOD 19-FEB-05	8220-Modesto Dom Water
566	701620	11	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	21-Feb-05	19.46	Currency	\$19.46	WYNHAM HOTEL 5 PHOENIX 01-MAR-05	8220-Modesto Dom Water
567	701620	11	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	21-Feb-05	24	Currency	\$24.00	SACRAMENTO CNTY AIRPT 18-FEB-05	8220-Modesto Dom Water
568	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	21-Feb-05	10.76	Currency	\$10.76	LITTLE AMERICA SLC LOD 18-FEB-05	8220-Modesto Dom Water
569	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	21-Feb-05	20.27	Currency	\$20.27	SQUATTERS AIRPORT PUB 18-FEB-05	8220-Modesto Dom Water
570	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	21-Feb-05	182.38	Currency	\$182.38	LITTLE AMERICA SLC LOD 19-FEB-05	8220-Modesto Dom Water
571	701620	11	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	28-Feb-05	87.74	Currency	\$87.74	HOUSE OF BEEF 24-FEB-05 SO CITY WTP TOUR	8220-Modesto Dom Water
									MEMORANDUM CONFERENCE-PAT RYAN	
572	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	02-Mar-05	211.81	Currency	\$211.81	WYNHAM HOTEL 5 PHOENIX 01-MAR-05	8220-Modesto Dom Water
573	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	11-Mar-05	11.59	Currency	\$11.59	HRG-PHOENIX 10011455 08-MAR-05	8220-Modesto Dom Water
574	701620	10	BANK ONE, NA	503-Meals/Lodg/Parlr/RentCar	11-Mar-05	486.53	Currency	\$486.53	WYNHAM HOTEL 5 PHOENIX 08-MAR-05	8220-Modesto Dom Water
				Total Bank One Meals/Lodg/Parlr/RentCar				\$1,927.09		
575	701620	10	DIAS, GREGORY PAUL (GREG)	503-Meals/Lodg/Parlr/RentCar	16-Dec-04	20	Currency	\$20.00	EXPENSES - PBLIC MTG PHASE TWO EXPANSION PROJECT PUBLIC MTG	0000-Balance Sheet
				Total Greg Dias Meals/Lodg/Parlr/RentCar				\$20.00		
576	701620	10	JAKE SONKE, CONTROLLER	503-Meals/Lodg/Parlr/RentCar	20-Jun-03	7.55	Currency	\$7.55	CASH AND CARRY / PURCHASES - W E 6/20/03 - REIMBURSE THE PETTY CASH ACCT FOR MONEY ISSUED	0000-Balance Sheet
577	701620	10	JAKE SONKE, CONTROLLER	503-Meals/Lodg/Parlr/RentCar	27-Jun-03	33.12	Currency	\$33.12	CASH AND CARRY	0000-Balance Sheet

Line No	Project	Task	Employee/Supplier	Expend Type	Item Data	Quantity	UOM	Burdened Cost	Comment	Expend Org
578	701620	1 0	JAKE SONKE, CONTROLLER	503-Meals/Lodge/Party/Rent/Car	22-Jul-03	11.2	Currency	\$11.20	OLDE TYME PASTRY / PURCHASES THRU 7/21/03 - REIMBURSE THE PETTY CASH ACCT	0000-Balance Sheet
579	701620	1 0	JAKE SONKE, CONTROLLER	503-Meals/Lodge/Party/Rent/Car	11-Mar-04	11	Currency	\$11.00	CITY OF SACRAMENTO - PARKING / PURCHASES W/ E 3/10/04 - MEETING WITH SW/03	0000-Balance Sheet
580	701620	1 0	JAKE SONKE, CONTROLLER	503-Meals/Lodge/Party/Rent/Car	28-Sep-04	7.8	Currency	\$7.80	CASH & CARRY / PURCHASES - W E 9/27/04 / REIMBURSE THE PETTY CASH FOR FUNDS ISSUED	0000-Balance Sheet
581	701620	1 0	JAKE SONKE, CONTROLLER	503-Meals/Lodge/Party/Rent/Car	18-Oct-04	6.48	Currency	\$6.48	CASH & CARRY / PURCHASES / W E 10/19/04 / REIMBURSE THE PETTY CASH FOR FUNDS ISSUED	0000-Balance Sheet
582	701620	1 0	JAKE SONKE, CONTROLLER	503-Meals/Lodge/Party/Rent/Car	17-Dec-04	14.97	Currency	\$14.97	SAVEMART / PURCHASES W E 12/16/04 / REPLENISH THE PETTY CASH ACCT FOR FUNDS	0000-Balance Sheet
				Total Petty Cash Meals/Lodge/Party/Rent/Car				\$32.33		
583	701620	1 0	RYAN, PATRICK J (PAT)	503-Meals/Lodge/Party/Rent/Car	18-Mar-05	48.5	Currency	\$48.50	REINB EXP / MEMBRANE TECH CONF IN PHOENIX, AZ 3/8/05	0000-Balance Sheet
				Total Pat Ryan Meals/Lodge/Party/Rent/Car				\$48.50		
584	701620	1 0	WARD, WALTER PAUL (WALT)	503-Meals/Lodge/Party/Rent/Car	28-Feb-04	60	Currency	\$60.00	MRWTP PHASE II PROJECT LUNCH MTG / FEB 18,	0000-Balance Sheet
585	701620	1 0	WARD, WALTER PAUL (WALT)	503-Meals/Lodge/Party/Rent/Car	09-Mar-04	75	Currency	\$75.00	3/2/04 SWRCB MTG	0000-Balance Sheet
586	701620	1 0	WARD, WALTER PAUL (WALT)	503-Meals/Lodge/Party/Rent/Car	12-May-04	52	Currency	\$52.00	LUNCH STRATEGY MTG 5/3/04	0000-Balance Sheet
587	701620	1 0	WARD, WALTER PAUL (WALT)	503-Meals/Lodge/Party/Rent/Car	19-May-04	110	Currency	\$110.00	CO MTG TOUR WELBACK & VATCH & US FILTER, EXPENSES - PBLIC MTG PHASE TWO EXPANSION	0000-Balance Sheet
588	701620	1 0	WARD, WALTER PAUL (WALT)	503-Meals/Lodge/Party/Rent/Car	17-Dec-04	90	Currency	\$90.00	PROJECT MTG	0000-Balance Sheet
589				Total Walter Ward Meals/Lodge/Party/Rent/Car				\$387.00		
590				Total Meals/Lodge/Party/Rent/Car				\$2,475.72		
591										
592	701620	1 1	BANK ONE, NA	504-Seminars/Training/Meetings	02-Feb-05	675	Currency	\$675.00	AMERICAN WATER WORKS 27-JAN-05 (MEMBRANE CONF)	8220-Moderate Dom Water
593										
594	701620	1 1	BANK ONE, NA	504-Seminars/Training/Meetings	17-Feb-05	200	Currency	\$200.00	AMER WATER WORKS LB 15-FEB-05 (MEMBRANE CONF)	8220-Moderate Dom Water
595										
596				Total Seminars/Training/Meetings				\$875.00		
597										
598	701620	1 1	EEL SOL	601-Advertising	01-Feb-04	172.5	Currency	\$172.50	PO 44568 / JAN 05 BILLING	0000-Balance Sheet
599	701620	1 0	EEL SOL	601-Advertising	01-Mar-04	172.5	Currency	\$172.50	PO 44568 / FEB 04 ADS	0000-Balance Sheet
600	701620	1 0	EEL SOL	601-Advertising	01-Dec-04	205.6	Currency	\$205.60	PO 44568 / ACCT 9009605	0000-Balance Sheet
601	701620	1 0	EEL SOL	601-Advertising	26-Dec-04	179.9	Currency	\$179.90	PO 44568	0000-Balance Sheet
602	701620	1 0	MODESTO BEE	601-Advertising	01-Feb-04	1728.73	Currency	\$1,728.73	ADVERTISING 1/1 & 2/1/04 / WATER FACILITIES	0000-Balance Sheet
603	701620	1 0	MODESTO BEE	601-Advertising	01-Mar-04	1547.04	Currency	\$1,547.04	ACCT 40081705 / VARIQUS ADS 2/2/04-2/22/04	0000-Balance Sheet
604	701620	1 0	MODESTO BEE	601-Advertising	28-Nov-04	1843.21	Currency	\$1,843.20	PO 44564 / 11/7-11/21/04 NOA-WATER	0000-Balance Sheet
605	701620	1 0	MODESTO BEE	601-Advertising	28-Dec-04	2281.38	Currency	\$2,281.38	PO 44584 / ACCT 40081705 / 11/23/04-12/26/04	0000-Balance Sheet
606	701620	1 0	STANISLAUS FARM NEWS	601-Advertising	01-Feb-04	50	Currency	\$50.00	PO 44568 / DISPLAY ADS	0000-Balance Sheet
607	701620	1 0	STANISLAUS FARM NEWS	601-Advertising	01-Mar-04	50	Currency	\$50.00	PO 44568 / FEB 04 / WATER FAC PHASE 2	0000-Balance Sheet
608	701620	1 0	WATERFORD NEWS	601-Advertising	09-Feb-04	179.25	Currency	\$179.25	AD 2/5/04 / WATER FACILITIES EXPANSION	0000-Balance Sheet
609	701620	1 1	WATERFORD NEWS	601-Advertising	10-Dec-04	358.5	Currency	\$358.50	PO 44567 / W/E 12/10/04 ADS	0000-Balance Sheet
610	701620	1 0	WATERFORD NEWS	601-Advertising	17-Dec-04	358.5	Currency	\$358.50	PO 44567 / W E 12/15/04 BILLING / PUBLIC MTGS	0000-Balance Sheet
611										
612				Total Advertising				\$9,126.10		
613										
614	701620	1 0	STATE WATER RESOURCES CONTROL BOARD	612-Permits	31-Dec-03	900	Currency	\$900.00	ADDTL FILING FEE FOR LONG TERM WATER TRANSFER TO THE CITY OF MODESTO / RECENT ADOPTED FEE SCHEDULE WAS CHANGED	0000-Balance Sheet
615	701620	1 0	JAKE SONKE, CONTROLLER	621-Publications/Subscriptions	15-Jun-04	10.73	Currency	\$10.73	PURCHASES W E 6/14/04 / REIMBURSE THE PETTY CASH FOR FUNDS ISSUED-Videos City Council	0000-Balance Sheet
				Total Misc Expenses				\$110.73		

Labor	\$420,980.58	32.5%
Consultants/Outside Services	\$845,089.31	65.2%
Meals/Lodging/Parking/Rent/Car	\$2,475.72	0.2%
Transportation	\$2,666.26	0.2%
Materials, Postage, Parts, Supplies	\$15,338.01	1.0%
Seminars/Training/Meetings	\$875.00	0.1%
Advertising	\$9,126.10	0.7%
Misc Expenses	\$810.73	0.1%

check sum \$1,295,461.30 100.0%

OK

\$450,371.99

PHASE TWO DOMESTIC WATER EXPANSION PROJECT-COSTS FRONTED BY MID
EXPENDITURES- MAY 29, 2005 THROUGH OCTOBER 1, 2005

Project	Task	Expend Type	Item Date	Employee/Supplier	Quantity	UOM	Project Burdened Comment	Expend Ctg
Total From 4-1-05 Report (Expenditures through May 24 2005)							\$1,296,461.30	
701620	01.0		1 11-Jun-05	DIAS, GREGORY PAUL (GREG)	46	Hours	\$4,511.17	8420-Civil Engineering
701620	01.0		1 25-Jun-05	DIAS, GREGORY PAUL (GREG)	40	Hours	\$4,903.44	8420-Civil Engineering
701620	01.0		1 9-Jul-05	DIAS, GREGORY PAUL (GREG)	51	Hours	\$5,001.51	8420-Civil Engineering
701620	01.0		1 23-Jul-05	DIAS, GREGORY PAUL (GREG)	34	Hours	\$3,334.34	8420-Civil Engineering
701620	01.0		1 6-Aug-05	DIAS, GREGORY PAUL (GREG)	36	Hours	\$3,530.48	8420-Civil Engineering
701620	01.0		1 20-Aug-05	DIAS, GREGORY PAUL (GREG)	24	Hours	\$2,353.65	8420-Civil Engineering
701620	01.0		1 3-Sep-05	DIAS, GREGORY PAUL (GREG)	58	Hours	\$5,598.00	8420-Civil Engineering
				Total Greg Dias Labor			\$29,323.59	
701620	01.1		1 20-Aug-05	DURRER, CHARLES L (CHUCK)	20	Hours	\$912.12	8220-Modesto Dom Water
				Total Charles Durrer Labor			\$912.12	
701620	01.1		1 9-Jul-05	EDWARDS, KENNETH W (KEN)	15	Hours	\$1,366.19	8220-Modesto Dom Water
701620	01.1		1 23-Jul-05	EDWARDS, KENNETH W (KEN)	10	Hours	\$910.74	8220-Modesto Dom Water
701620	01.1		1 6-Aug-05	EDWARDS, KENNETH W (KEN)	25	Hours	\$2,276.85	8220-Modesto Dom Water
701620	01.1		1 20-Aug-05	EDWARDS, KENNETH W (KEN)	20	Hours	\$1,821.48	8220-Modesto Dom Water
				Total Ken Edwards Labor			\$6,375.16	
701620	01.1		1 23-Jul-05	EICHMAN, MARK A (MARK)	8	Hours	\$412.90	8220-Modesto Dom Water
701620	01.1		1 8-Aug-05	EICHMAN, MARK A (MARK)	20	Hours	\$1,032.26	8220-Modesto Dom Water
701620	01.1		1 20-Aug-05	EICHMAN, MARK A (MARK)	25	Hours	\$1,290.33	8220-Modesto Dom Water
701620	01.1		1 3-Sep-05	EICHMAN, MARK A (MARK)	6	Hours	\$412.90	8220-Modesto Dom Water
				Total Mark Eichean Labor			\$3,148.39	
701620	01.1		1 11-Jun-05	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	3	Hours	\$235.58	8220-Modesto Dom Water
701620	01.1		1 25-Jun-05	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	8	Hours	\$528.21	8220-Modesto Dom Water
701620	01.1		1 9-Jul-05	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	8	Hours	\$824.21	8220-Modesto Dom Water
701620	01.1		1 23-Jul-05	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	5	Hours	\$382.63	8220-Modesto Dom Water
701620	01.1		1 6-Aug-05	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	12	Hours	\$943.31	8220-Modesto Dom Water
701620	01.1		1 20-Aug-05	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	25	Hours	\$2,082.45	8220-Modesto Dom Water
701620	01.1		1 3-Sep-05	HIDAHL, CLAUDIA LOUISE (CLAUDIA)	28	Hours	\$2,309.94	8220-Modesto Dom Water
				Total Claudia Hidahl Labor			\$7,199.33	
701620	01.0		1 11-Jun-05	KETSCHER, WILLIAM M (BILL)	4	Hours	\$454.05	8420-Civil Engineering
701620	01.0		1 25-Jun-05	KETSCHER, WILLIAM M (BILL)	8	Hours	\$908.91	8420-Civil Engineering
701620	01.0		1 9-Jul-05	KETSCHER, WILLIAM M (BILL)	10	Hours	\$1,137.39	8420-Civil Engineering
701620	01.0		1 23-Jul-05	KETSCHER, WILLIAM M (BILL)	10	Hours	\$1,137.39	8420-Civil Engineering
701620	01.0		1 6-Aug-05	KETSCHER, WILLIAM M (BILL)	12	Hours	\$1,364.88	8420-Civil Engineering
701620	01.0		1 20-Aug-05	KETSCHER, WILLIAM M (BILL)	8	Hours	\$909.91	8420-Civil Engineering
701620	01.0		1 3-Sep-05	KETSCHER, WILLIAM M (BILL)	6	Hours	\$693.43	8420-Civil Engineering
				Total Bill Ketscher Labor			\$6,696.34	
701620	01.1		1 9-Jul-05	MASON, JOSEPH EDWARD (JOE)	4	Hours	\$206.45	8220-Modesto Dom Water
701620	01.0		1 23-Jul-05	MASON, JOSEPH EDWARD (JOE)	2	Hours	\$103.23	8220-Modesto Dom Water
701620	01.1		1 6-Aug-05	MASON, JOSEPH EDWARD (JOE)	8	Hours	\$412.90	8220-Modesto Dom Water
701620	01.1		1 20-Aug-05	MASON, JOSEPH EDWARD (JOE)	20	Hours	\$1,032.26	8220-Modesto Dom Water
				Total Joe Mason Labor			\$1,754.84	
701620	01.0		1 8-Aug-05	MAZARIEGOS, LEISSER PATRICIA (LEISSE)	42	Hours	\$1,424.14	8420-Civil Engineering
				Total Leisser Mazariegos Labor			\$1,424.14	
701620	01.1		1 9-Jul-05	MILLER, JEFFERY LEE (JEFF)	50	Hours	\$3,556.80	8220-Modesto Dom Water
701620	01.1		1 9-Jul-05	MILLER, JEFFERY LEE (JEFF)	-50	Hours	-\$3,556.80	8220-Modesto Dom Water
701620	01.1		1 9-Jul-05	MILLER, JEFFERY LEE (JEFF)	42	Hours	\$2,987.71	8220-Modesto Dom Water
701620	01.1 P12		1 9-Jul-05	MILLER, JEFFERY LEE (JEFF)	0	Hours	\$106.70	8220-Modesto Dom Water
701620	01.1		12 9-Jul-05	MILLER, JEFFERY LEE (JEFF)	3	Hours	\$213.41	8220-Modesto Dom Water
701620	01.1		1 23-Jul-05	MILLER, JEFFERY LEE (JEFF)	30	Hours	\$2,134.08	8220-Modesto Dom Water
701620	01.1		1 20-Aug-05	MILLER, JEFFERY LEE (JEFF)	16	Hours	\$1,138.18	8220-Modesto Dom Water
				Total Jeff Miller Labor			\$6,689.08	
701620	01.0		1 8-Aug-05	RATTO, VALERIE I (VALERIE)	1	Hours	\$33.91	8420-Civil Engineering
				Total Valerie Ratto Labor			\$33.91	

701620	01 0	1	11-Jun-05 RYAN PATRICK J (PAT)	8 Hours		\$644 94		8220-Modesto Dom Water
701620	01 0	1	25-Jun-05 RYAN PATRICK J (PAT)	19 Hours		\$2 006 73		8220-Modesto Dom Water
701620	01 0	1	23-Jul-05 RYAN PATRICK J (PAT)	17 Hours		\$1 795 49		8220-Modesto Dom Water
701620	01 0	1	8-Aug-05 RYAN PATRICK J (PAT)	15 Hours		\$1 564 26		8220-Modesto Dom Water
701620	01 0	1	20-Aug-05 RYAN PATRICK J (PAT)	15 Hours		\$1 584 26		8220-Modesto Dom Water
701620	01 0	1	3-Sep-05 RYAN PATRICK J (PAT)	53 Hours		\$5 597 71		8220-Modesto Dom Water
			Total Pat Ryan Labor			\$13 413 39		
701620	01 0	1	11-Jun-05 WARD WALTER PAUL (WALT)	2 6 Hours		\$314 68		8010-AGM Water Operations
701620	01 0	1	25-Jun-05 WARD WALTER PAUL (WALT)	6 Hours		\$755 23		8010-AGM Water Operations
701620	01 0	1	23-Jul-05 WARD WALTER PAUL (WALT)	2 Hours		\$251 74		8010-AGM Water Operations
701620	01 0	1	8-Aug-05 WARD WALTER PAUL (WALT)	4 Hours		\$503 48		8010-AGM Water Operations
701620	01 0	1	20-Aug-05 WARD WALTER PAUL (WALT)	8 Hours		\$1 006 97		8010-AGM Water Operations
701620	01 0	1	3-Sep-05 WARD WALTER PAUL (WALT)	8 Hours		\$1 006 97		8010-AGM Water Operations
			Total Walter Ward Labor			\$4 839 97		
			Total Labor			\$88 693 88		
701620	01 1 201-Materials		7-Jul-05 CENTER STATE PIPE & SUPPLY	59 99 Currency		\$59 99 PO 44100		0000-Balance Sheet
701620	01 1 255-Material Sales Tax		7-Jul-05 CENTER STATE PIPE & SUPPLY	4 42 Currency		\$4 42 PO 44100		0000-Balance Sheet
			Total Center State Pipe & Supply Materials			\$64 41		
701620	01 1 201 Materials		1-Jul-05 DELTA RUBBER	835 61 Currency		\$835 61 PO 42750		0000-Balance Sheet
701620	01 1 201 Materials		8-Jul-05 DELTA RUBBER	111 84 Currency		\$111 84 PO 42750		0000-Balance Sheet
701620	01 1 201 Materials		1-Sep-05 DELTA RUBBER	285 94 Currency		\$285 94 PO 42750		0000-Balance Sheet
701620	01 1 255-Material Sales Tax		1-Jul-05 DELTA RUBBER	61 67 Currency		\$61 67 PO 42750		0000-Balance Sheet
701620	01 1 255-Material Sales Tax		8-Jul-05 DELTA RUBBER	8 25 Currency		\$8 25 PO 42750		0000-Balance Sheet
701620	01 1 255-Material Sales Tax		1-Sep-05 DELTA RUBBER	21 1 Currency		\$21 10 PO 42750		0000-Balance Sheet
			Total Delta Rubber Materials			\$1,324 41		
701620	01 1 201-Materials		18-Aug-05 WATERFORD FARM SUPPLY	15 76 Currency		\$15 76 PO 43010		0000-Balance Sheet
701620	01 1 255-Material Sales Tax		18-Aug-05 WATERFORD FARM SUPPLY	1 16 Currency		\$1 16 PO 43010		0000-Balance Sheet
			Total Waterford Farm Supply Materials			\$16 92		
701620	01 1 207 Freight		4-Jul-05 BANK ONE NA	62 69 Currency		\$62 69 FEDEX FREIGHT WEST INC 30-JUN-05		8220-Modesto Dom Water
			Total Bank One Freight			\$62 69		
701620	01 1 214-Repair Parts		29-Jun-05 BANK ONE NA	254 89 Currency		\$254 89 MCMASTER-CARR 27-JUN-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		29-Jun-05 BANK ONE NA	348 38 Currency		\$348 38 MCMASTER CARR 27-JUN-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		30-Jun-05 BANK ONE NA	416 61 Currency		\$416 61 MCMASTER CARR 28-JUN-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		1-Jul-05 BANK ONE NA	43 8 Currency		\$43 80 MCMASTER CARR 29-JUN-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		1-Jul-05 BANK ONE NA	52 06 Currency		\$52 06 MCMASTER-CARR 29-JUN-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		1-Jul-05 BANK ONE NA	483 51 Currency		\$483 51 MCMASTER CARR 29-JUN-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		7-Jul-05 BANK ONE NA	244 55 Currency		\$244 55 MCMASTER-CARR 05-JUL-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		18-Jul-05 BANK ONE NA	190 38 Currency		\$190 38 MCMASTER-CARR 13-JUL-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		18-Jul-05 BANK ONE NA	114 57 Currency		\$114 57 MCMASTER-CARR 14-JUL-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		18-Jul-05 BANK ONE NA	1396 96 Currency		\$1 396 96 MCMASTER-CARR 13-JUL-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		26-Jul-05 BANK ONE NA	74 53 Currency		\$74 53 MCMASTER-CARR 26-JUL-05		8220-Modesto Dom Water
701620	01 1 214-Repair Parts		29-Jul-05 BANK ONE NA	230 84 Currency		\$230 84 MCMASTER-CARR 27-JUL-05		8220-Modesto Dom Water
			Total Bank One Repair Parts			\$3 761 08		
			Total Materials and Supplies			\$6 219 48		
701620	01 1 401-Consulting		1-Jun-05 BLACK & VEATCH	16941 66 Currency		\$16 941 66 CLIENT 65518 / PROF SVCS / MRWTP PHASE 2 EXP PROJ / 3/5/05-1/1/05		0000-Balance Sheet
701620	01 1 401-Consulting		22-Jun-05 BLACK & VEATCH	34983 76 Currency		\$34 983 76 CLIENT 65518 / PROF SVCS / MRWTP PHASE 2 EXP PROJ / 4/2/05-6/3/05		0000-Balance Sheet
701620	01 1 401 Consulting		15-Jul-05 BLACK & VEATCH	18137 81 Currency		\$18 137 81 CLIENT 65518 / PROF SVCS / MRWTP PHASE 2 EXP PROJ / 6/4/05-8/30/05		0000-Balance Sheet
701620	01 1 401-Consulting		1-Sep-05 BLACK & VEATCH	47247 97 Currency		\$47 247 97 PROFESSIONAL SERVICES JUL 05 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR		0000-Balance Sheet
			Total Black & Veatch Consulting			\$117 211 40		
701620	01 1 401 Consulting		6-Jun-05 JONES & STOKES ASSOCIATES	2160 15 Currency		\$2 160 15 PROFESSIONAL SERVICES / MAY 05 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR		0000-Balance Sheet
701620	01 1 401 Consulting		7-Jul-05 JONES & STOKES ASSOCIATES	7475 79 Currency		\$7 475 79 PROJ / 6/4/05-8/30/05 PHASE 2 EXPANSION PROJECT SEIR		0000-Balance Sheet
701620	01 1 401 Consulting		1-Aug-05 JONES & STOKES ASSOCIATES	4260 25 Currency		\$4 260 25 PROFESSIONAL SERVICES MRWTP PHASE TWO EXPANSION PROJECT SEIR / JUL 05 BILLING		0000-Balance Sheet
701620	01 1 401 Consulting		1-Sep-05 JONES & STOKES ASSOCIATES	786 1 Currency		\$786 10 PROFESSIONAL SERVICES JUL 05 BILLING / MRWTP PHASE TWO EXPANSION PROJECT SEIR		0000-Balance Sheet
			Total Jones & Stokes Consulting			\$14 622 29		

701620	01 1 425-Other Outside Services	30-May-05 BSK ANALYTICAL LABORATORIES	1350	Currency	\$1 350 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	2-Jun-05 BSK ANALYTICAL LABORATORIES	185	Currency	\$185 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	8-Jun-05 BSK ANALYTICAL LABORATORIES	240	Currency	\$240 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	15-Jun-05 BSK ANALYTICAL LABORATORIES	2025	Currency	\$2 025 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	17-Jun-05 BSK ANALYTICAL LABORATORIES	365	Currency	\$365 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	21-Jun-05 BSK ANALYTICAL LABORATORIES	485	Currency	\$485 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	21-Jun-05 BSK ANALYTICAL LABORATORIES	150	Currency	\$150 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	21-Jun-05 BSK ANALYTICAL LABORATORIES	185	Currency	\$185 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	23-Jun-05 BSK ANALYTICAL LABORATORIES	150	Currency	\$150 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	30-Jun-05 BSK ANALYTICAL LABORATORIES	130	Currency	\$130 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	13-Jul-05 BSK ANALYTICAL LABORATORIES	160	Currency	\$160 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	8-Aug-05 BSK ANALYTICAL LABORATORIES	30	Currency	\$30 00	PO 41760	0000-Balance Sheet
701620	01 1 425-Other Outside Services	8-Aug-05 BSK ANALYTICAL LABORATORIES	375	Currency	\$375 00	PO 41760	0000-Balance Sheet
Total Consulting & Outside Services					\$137 683 69		
Total BSK Analytical Lab Outside Services					\$5 860 00		
701620	01 1 503-Meals/Lodg/Part/RentCar	1-Aug-05 BANK ONE NA	86 67	Currency	\$86 67	DOUBLETREE MODESTO F & 28-JUL-05	0220-Modesto Dom Water
701620	01 0 503 Meals/Lodg/Part/RentCar	24-Jun-05 EDWARDS KENNETH W (KEN)	43 68	Currency	\$43 68	EXP REIMB / AWWA IN SF ON 6/15/05	0000-Balance Sheet
701620	01 0 503 Meals/Lodg/Part/RentCar	24-Jun-05 EICHMAN MARK A (MARK)	26 12	Currency	\$26 12	EXP REIMB / AWWA IN SF ON 6/14/05	0000-Balance Sheet
701620	01 0 503 Meals/Lodg/Part/RentCar	5-Sep-05 JAKE SONKE CONTROLLER	4	Currency	\$4 00	PURCHASES W/E 9/6/05 / REIMBURSE PETTY CASH	0000-Balance Sheet
701620	01 1 503-Meals/Lodg/Part/RentCar	26-Jul-05 WARD WALTER PAUL (WALT)	85	Currency	\$85 00	FOR FUNDS ISSUED	0000-Balance Sheet
		Total Meals/Lodg/Part/RentCar			\$146 55	MRWTF PHASE TWO EXPANSION PROJECT	
					\$146 55	MEMBRANE PRE-SELECTION REVIEW TEAM	
701620	01 0 601-Advertising	31-Jul-05 MODESTO BEE	146 55	Currency	\$146 55	LUNCH/DINER / MODESTO CA / JUL 25 2005	0000-Balance Sheet
		Total Advertising			\$146 55		
701620	01 0 642 Trash Removal/Dumping Fees	31-Aug-05 GILTON RESOURCE RECOVERY	30	Currency	\$30 00	ACCT #0000386-00 / AUG 05 BILLING / PO 44573	0000-Balance Sheet
		Total Misc Expenses			\$30 00		

Task 01 Totals		
Labor	\$591 580 46	33 0%
Consultants/Outside Services	\$982 773 00	64 7%
Meals/Lodg/Part/RentCar	\$2 701 07	0 2%
Transportation	\$2 686 26	0 2%
Materials Postage Parts Supplies	\$16 558 09	1 1%
Seminars/Training/Meetings	\$9 75 00	0 1%
Advertising	\$5 271 65	0 3%
Misc Expenses	\$946 73	0 1%

Check sum for this report	\$223 804 95	
Total from June 1 2005 report	\$1 295 491 30	
Total for All 01 Task Charges	\$1 519 296 25	100 0%

Meeting Date: October 11, 2005
Item No.: 112097
Tab No.:

Subject: Amended and Restated Treatment and Delivery Agreement between the Modesto Irrigation District (MID) and the City of Modesto (City) pertaining to the Modesto Regional Water Treatment Plant (MRWTP).

Recommended Action:

By resolution, the Modesto Irrigation District Board of Directors authorizes the General Manager to execute the Amended and Restated Treatment and Delivery Agreement between the Modesto Irrigation District and the City of Modesto pertaining to the Modesto Regional Water Treatment Plant (MRWTP) and direct staff to initiate the final design process related to the Phase Two expansion of the MRWTP.

Background and Discussion:

In the early 1990's the City of Modesto, Modesto Irrigation District, and the former Del Este Water Company collaborated together for the purpose of utilizing MID's surface water rights for domestic drinking water purposes. The Modesto Regional Water Treatment Plant (MRWTP) was the result of this effort. The MRWTP consists of a 30 million gallon per day regional water treatment plant, and storage and delivery facilities, which were completed in 1995. At the direction of the MRWTP Policy Committee, the MID Board and the City Council, planning and engineering design studies are underway for the project to expand the capacity of the MRWTP to treat up to 67,200 acre-feet per year.

Work on the expansion project to date has been accomplished under an advance funding and reimbursement agreement between the City and MID. MID has initially funded the entire cost of the CEQA work and preliminary engineering. MID will recover these funds once the project financing is completed.

At this time, the Subsequent Environmental Impact Report (SEIR) has been completed. Both MID and the City certified the document on July 12, 2005. The MID and City will be considering to adopt findings and approve the project. In addition, MID has received approval from the State Water Resources Control Board to change the use of up to 67,200 acre-feet per year of water from agricultural to municipal and industrial purposes. It is now appropriate to consider the amended and restated Treatment and Delivery Agreement (TDA) for formal execution between MID and the City.

The original TDA was executed in 1992 and provided the terms and conditions under which the City would receive 30 MGD from the first phase of the project. Through extensive discussions between MID and the City, the original agreement has been amended and restated to include the Phase Two project which will change the amount of water the City receives not-to-exceed 67,200 acre-feet per year, or 60 mgd on an annual average daily basis.

The terms of the amended and restated TDA, for the most part, are the same as the original TDA but have been amended where appropriate to account for the additional 30 MGD.

Some of the key points of the amended and restated TDA:

- The City will continue to receive raw water at the same unit cost as MID agricultural users.
- The City will reimburse MID for all capital, operating and maintenance costs associated with treatment of the water.
- If necessary during a drought, the City and MID agricultural customer allocations will be reduced in equal proportions.
- MID agrees that its commitment to its agricultural customers and to the City shall be met before any subsequent water transfers for delivery of water outside the District's boundaries.
- The Policy Committee, which advises the MID Board and the City Council on matters related to the project, shall consist of two City Council members and two MID Board members.

The proposed amended and restated TDA is the product of extensive discussions and negotiations between MID and the City. Both staffs believe it represents a comprehensive, equitable document on which we can continue the partnership between the City and MID.

Alternatives/Pros and Cons of Each Alternative:

No Surface Water Treatment Plant Expansion

Under this scenario, the City of Modesto will have to rely exclusively on the use of ground water to meet all of its future needs in terms of both population growth and industrial use. This is not a sustainable option due to the resulting drawdown of the aquifer system. This drawdown would likely result in a significant reduction in ground water storage in the basin and possible water quality degradation. Under this alternative, as lands that were once irrigated by MID-supplied surface water become urbanized, such water supply could be lost if MID does not continue to provide water to these urbanized areas.

Water Plant Treatment Capacity Expansion

The opportunities offered by expanding the capacity of the surface water treatment plant and only using ground water to meet peaking purposes, provides the COM with the most economical, highest quality, and most reliable potable water supply. In addition, a well managed conjunctive use program further protects the ground water for times when it is most needed such as during extended drought periods when adequate surface water supplies are not fully available. The plant expansion further provides a high degree of reliability and certainty for civic leaders and planners regarding the ability to continue to meet the potable water needs of the urban community

Concurrence:

The MRWTP Policy Committee unanimously recommended that the MID Board of Directors and City Council execute the Amended and Restated Treatment and Delivery Agreement and has directed MID and City staff to make the necessary arrangements for approval by the MID Board of Directors and City of Modesto City Council. The MID and the City plan to take action on this matter on October 11, 2005.

Fiscal Impact:

The restated and amended TDA will supercede the advance funding agreement, which was last amended on July 12, 2005. Under the terms of the advance funding agreement the City is obligated to reimburse MID up to \$1,507,000 in consultant costs plus any other MID labor and expenses attributable to the project. As of June 1, 2005, MID labor and expenses for the project totaled \$450,372. Additional MID expenses occurring after June 1, 2005, will be identified and trued up at the time of project financing. The total cost of the construction of the MRWTP Phase Two Expansion was estimated at \$40 million in February 2004. A more current cost estimate is expected from the Project Engineer in November 2005. Under the terms of the TDA, these costs will be recovered through the project financing.

Recommendation:

By resolution, the Modesto Irrigation District Board of Directors authorizes the General Manager to execute the Amended and Restated Treatment and Delivery Agreement between the Modesto Irrigation District and the City of Modesto pertaining to the Modesto Regional Water Treatment Plant.

Attachments:

None

Presenter	Asst. General Manager	General Manager	Legal Review Obtained
			

FINANCING AMENDMENTS TO
AMENDED AND RESTATED TREATMENT AND DELIVERY AGREEMENT
BETWEEN THE
MODESTO IRRIGATION DISTRICT
AND
THE CITY OF MODESTO

Dated as of June 1, 2007

FINANCING AMENDMENTS TO AMENDED AND RESTATED
TREATMENT AND DELIVERY AGREEMENT

PARTIES

The Parties to this Financing Amendments to the Treatment and Delivery Agreement, dated as of June 1, 2007 (collectively, the "Amendment") are the Modesto Irrigation District, a California irrigation district (the "District"), and the City of Modesto, a California municipal corporation and charter city (the "City"), who agree as follows:

RECITALS

A. On October 11, 2005 the Board of Directors of the District and the City Council of the City approved the Amended and Restated Treatment and Delivery Agreement between the District and the City (the "Agreement"). All capitalized terms not defined in this Amendment shall have the meanings set forth in the Agreement.

B. The City has requested that the District, working with the Modesto Irrigation District Financing Authority (the "Authority"), finance the First Expansion Facilities through the issuance of Variable Financing which will be used indefinitely and may not be refinanced with Fixed Financing. The City and the District desire to enter into this Amendment in order to provide additional terms and conditions to the Agreement related to the use of such Variable Financing.

C. The City has also requested that such Variable Financing be issued in connection with an interest rate swap in order to manage the changes in interest costs associated with the Variable Financing. The City and the District desire to enter into this Amendment in order to provide additional terms and conditions to the Agreement related to the use of such an interest rate swap.

26. FINANCING AMENDMENTS. The Agreement shall be amended in the manner set forth in this Section 26.

26.1. Section 4.14, the term "Debt Service," is hereby amended as follows:

4.14 Debt Service. The payments required to be made for principal, interest, and other charges, if any, to the holders of evidences of indebtedness or certificates of participation issued by the District or the Authority pursuant to this Agreement to finance the Project. If bond insurance is used in connection with Fixed Financing or Variable Financing, Debt Service shall include bond insurance premiums. If a Swap Contract is used in connection with Variable Financing, Debt Service shall include the payments required to be made by the Authority under the Swap Contract, including without limitation scheduled payments, termination payments or other types of payments as may be required under the terms of the Swap Contract.

26.2. Section 4.24, the term "Financing," is hereby amended as follows:

4.24 Financing. The actual putting into place of Variable Financing or Fixed Financing to the point of disbursement of funds as needed to allow construction of the First Expansion Facilities to proceed and including the Swap Contract, if any, entered into in connection with Variable Financing.

26.3. Section 4.30, the term "Maximum Annual Debt Service," is hereby amended as follows:

4.30 Maximum Annual Debt Service. The largest amount of Debt Service to be paid under Fixed Financing or Variable Financing during any year and with respect to Variable Financing for which a Swap Contract has been entered into, shall assume for purposes of calculating such largest amount that the interest on the Variable Financing accrues at a rate equal to the fixed rate of interest payable by the Authority under such Swap Contract.

26.4. Section 4.44A and the defined term "Swap Contract" are hereby added as follows:

4.44A Swap Contract. "Swap Contract" means, collectively, the ISDA Master Agreement, the Schedule, the Confirmation and the Credit Support Annex, if any, between the Authority and a counterparty and designated in writing by the District to the City as constituting a Swap Contract under this Agreement and entered into in connection with Variable Financing and secured by a pledge of water rates and charges of the City on a parity or subordinate basis with the obligations to be paid by the City pursuant to this Agreement, all as described and provided for in such documents.

26.5. Section 16.3.2A, "Rates and Charges," is hereby amended to read as follows:

16.3.2.A. Rates and Charges. City shall fix, prescribe and collect water rates and charges which shall be at least sufficient to yield City Gross Water Revenues during each fiscal year of the City in an amount at least equal to: (i) the payment obligations of the City under this Agreement during the fiscal year other than Debt Service; plus (ii) City maintenance and operations costs to the extent not included in clause (i) above; plus (iii) one hundred and twenty-five percent (125%) of the Debt Service to be paid during the fiscal year, assuming for this purpose that the interest on the Variable Financing accrues at a rate equal to the fixed rate of interest payable by the Authority under the Swap Contract but excluding any termination payments to be made under the Swap Contract; plus (iv) to the extent not included in clause (iii) above, any amounts due and payable by the Authority under the Swap Contract.

26.6. Section 16.3.2B, "Pledge," is hereby amended to read as follows:

16.3.2.B. Pledge. All City Gross Water Revenues and all money on deposit in the funds established by this Agreement are hereby irrevocably pledged to the punctual payment of the interest on and principal of and redemption premiums, if any, on the obligations evidencing the Financing and all obligations of City under any Parity Debt. This pledge shall constitute a lien on and security interest in City Gross Water Revenues and funds established by this Agreement and shall attach, be perfected, and be valid and binding from and after the consummation of the Financing or the issuance of Parity Debt, without any physical delivery thereof or further act. If City gives any additional collateral to secure the payment of the Financing (other than a Swap Contract), City agrees that such collateral shall also secure all

obligations of City under any Parity Debt on a pari passu basis. For purposes of this Section 16.3.2B, Financing shall include only the scheduled payments to be made by the Authority pursuant to the Swap Contract.

26.7. Section 16.3.2C, "Similar Covenant," is hereby amended to read as follows:

16.3.2.C. Similar Covenant. City hereby covenants and agrees that it shall require a covenant substantially similar to clauses (i), (ii), (iii) and (iv) of Section 16.3.2A with respect to all Parity Debt.

26.8. Section 16.3.2E., "Subordinated Debt," is hereby amended to read as follows:

16.3.2.E. Subordinated Debt. In addition to its obligations hereunder, City may issue or incur loans, bonds, notes, advances or indebtedness payable from City Gross Water Revenues on a junior and subordinated basis with its obligations hereunder in such principal amount as shall be determined by the City. The City does hereby determine that the termination payments, if any, to be made by the Authority pursuant to the Swap Contract shall constitute subordinated debt under this Agreement. All City Gross Water Revenues and all money on deposit in the funds established by this Agreement are hereby irrevocably pledged to the punctual payment of the termination payments, if any, to be made by the Authority pursuant to the Swap Contract; provided that this pledge shall be junior and subordinate in all respects to the pledge set forth in Section 16.3.2B of this Agreement.

27. RATIFICATION AND CONFIRMATION OF AGREEMENT. Except as amended by this Amendment, the Agreement is hereby ratified and confirmed and approved in all other respects as the valid and bonding obligation of the City and the District.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

MODESTO IRRIGATION DISTRICT

CITY OF MODESTO

By: Allen Short
General Manager

By: _____
Finance Director

Approved as to form:

Approved as to form:

By: [Signature]
Senior Staff Attorney

By: _____
City Attorney

Attest:

Attest:

By: Pat Caldwell Mills
Secretary

By: _____
City Clerk

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

MODESTO IRRIGATION DISTRICT

CITY OF MODESTO

By: _____
General Manager

By: *[Signature]*
Finance Director

Approved as to form:

Approved as to form:

By: _____
Senior Staff Attorney

By: *[Signature]*
City Attorney

Attest:

Attest:

By: _____
Secretary

By: *Jean Morris*
City Clerk

**CERTIFICATE OF THE SECRETARY OF THE
BOARD OF DIRECTORS OF THE MODESTO IRRIGATION DISTRICT**

I, PAT MILLS, Secretary of the Board of Directors of the Modesto Irrigation District hereby certify that the foregoing is a full, true and correct copy of the Amended and Restated Treatment and Delivery Agreement, executed and delivered during 2005 by the District and the City of Modesto, as amended by the Financing Amendments to Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007, by and between the District and the City of Modesto (as amended, the "Treatment and Delivery Agreement").

I further certify that I have carefully compared the foregoing copy with the original on file and of record in my office; that said copy is a true, complete and correct copy of the Treatment and Delivery Agreement; and that said Treatment and Delivery Agreement has not been further modified, amended, rescinded or revoked in any manner since the date of its execution, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this 14th day of August, 2013.

MODESTO IRRIGATION DISTRICT

By 
Secretary of the Board of Directors
of the Modesto Irrigation District

CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by the CITY OF MODESTO (the “City”) and WELLS FARGO BANK, NATIONAL ASSOCIATION, in its capacity as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the Modesto Irrigation District Financing Authority (the “Authority”) of its \$43,270,000 Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”). The Bonds are being issued pursuant to a Trust Agreement (the “Trust Agreement”), dated as of August 1, 2013, by and among the Authority, the Modesto Irrigation District (the “District”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth above and in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the City Manager or Director of Finance of the City, or any designee thereof, or such other officer or employee as the City shall designate in writing to the Trustee and the Dissemination Agent from time to time.

“Dissemination Agent” shall mean Wells Fargo Bank, National Association, acting in the capacity of Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Holders” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement for the Bonds dated July 31, 2013.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the end of the nine month following the end of the City’s Fiscal Year (presently March 31 of the subsequent year following the end of the City’s Fiscal Year), commencing with the report for the 2012-13 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit the audited financial statements as soon thereafter as available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City) and the Trustee. If by fifteen (15) business days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB (with a copy to the Authority, the District and the City) in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall:

- (i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and
- (ii) to the extent the City has provided the Dissemination Agent with the Annual Report, file a report with the City and (if the Dissemination Agent is not the Trustee, the Trustee) certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

SECTION 4. Content of Annual Reports. The Annual Report of the City shall contain or include by reference the following categories or similar categories of information updated to incorporate information for the most recent fiscal or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the Bonds):

- (i) the Annual Budget of the City;
- (ii) the Comprehensive Annual Financial Report of the City and, to the extent not contained in said Report or if said Report is no longer being prepared, the audited financial statements of the City's Water Utility System for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the audited financial statements of the City's Water Utility System are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;
- (iii) the principal amount of the Bonds and any other Parity Debt outstanding,
- (iv) to the extent not included in the City's audited financial statements, an update for the prior Fiscal Year of the financial information and operating data with respect to the City and the City's Water Utility System of the following type (or information and data comparable thereto) included in the Official Statement relating to the Bonds:
 - (a) the table entitled "CITY WATER UTILITY SYSTEM STATISTICS;"
 - (b) the table entitled "CITY WATER UTILITY SYSTEM – Service Area Total Production (Billion Gallons);"
 - (c) the table entitled "CITY WATER UTILITY SYSTEM – Sale of Water;"
 - (d) the table entitled "CITY WATER UTILITY SYSTEM – Ten Largest Customers;"

- (e) the table entitled “CITY WATER UTILITY SYSTEM – Monthly Single Family Residential Flat Water Rates;”
- (f) the table entitled “CITY WATER UTILITY SYSTEM – Water Rates and Charges Commercial Accounts;”
- (g) the table entitled “CITY WATER UTILITY SYSTEM – Connection Fees for All Users Except Multiple Family Units;”
- (h) the table entitled “CITY WATER UTILITY SYSTEM – Comparison of Average Monthly Water Rates Flat Rate (1” Service);”
- (i) the table entitled “CITY WATER UTILITY SYSTEM – Historical Debt Service Coverage;” and
- (j) the table entitled “CITY WATER UTILITY SYSTEM – Projected Operating Results).”

Any or all of the items listed in (iv) above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB or the SEC. If any document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this section, upon the occurrence of any of the following events (in each case to the extent applicable) with respect to the Bonds, the City shall give, or cause to be given by so notifying the Dissemination Agent in writing and instructing the Dissemination Agent to give, notice of the occurrence of such event, in each case, pursuant to Section 5(c) hereof:

1. principal or interest payment delinquencies;
2. non-payment related defaults, if material;
3. modifications to the rights of the Bondholders, if material;
4. optional, contingent or unscheduled calls, if material, and tender offers;
5. defeasances;
6. rating changes;
7. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with

respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds, if material;
12. bankruptcy, insolvency, receivership or similar proceedings of the City, which shall occur as described below;
13. appointment of a successor or additional trustee or the change of name of a trustee, if material, or;
14. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City's Water Utility System other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

For these purposes, any event described in item 12 of this Section 5(a) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(b) Upon receipt of notice from the City and instruction by the City to report the occurrence of any Listed Event, the Dissemination Agent shall provide notice thereof to the MSRB in accordance with Section 5(c) hereof. In the event the Dissemination Agent shall obtain actual knowledge of the occurrence of any of the Listed Events, the Dissemination Agent shall, immediately after obtaining such knowledge, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(c). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Event shall mean actual knowledge by the Dissemination Agent, if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular

responsibility for the administration of matters related to the Trust Agreement. The Dissemination Agent shall have no responsibility to determine the materiality, if applicable, of any of the Listed Events.

(c) The City, or the Dissemination Agent, if the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, shall file a notice of such occurrence with the MSRB in a timely manner not more than ten (10) business days after the occurrence of the event.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement with respect to the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be Wells Fargo Bank, National Association. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Disclosure Agreement in accordance with its written fee schedule provided to the City, as such fee schedule may be amended from time to time in writing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City that does not adversely affect the Dissemination Agent's rights and obligations) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (i) If the amendment or waiver relates to the provisions of Section 3(a), Section 4 or Section 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;
- (ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

- (iii) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (to the extent indemnified to its satisfaction)) or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

In accepting the appointment under this Disclosure Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the Holders or Beneficial Owners of the Bonds, the City, the Participating Underwriters or any other party or person.

No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent upon thirty (30) days' notice to the City and the Trustee. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City: City of Modesto
1010 10th Street, Suite 5200
Modesto, California 95353
Attention: Director of Finance
Telephone: (209) 577-5371
E-mail: ggenreux@modestogov.com

To the Dissemination Agent: Wells Fargo Bank, National Association
333 Market Street, 18th Floor
San Francisco, CA 94105
Attention: Corporate Trust Department
Telephone: (415) 371-3365
Facsimile: (415) 371-3400
E-mail: kerri.jones@wellsfargo.com

Any person may, by written notice to the other persons listed above, designate a different address, telephone number(s) or other contact to which subsequent notices or communications should be sent. Notices given by electronic means are to be subsequently confirmed by telephone or writing.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City and the Dissemination Agent to the undertaking herein provided.

Dated: August 14, 2013

CITY OF MODESTO

By: *Gloriette Yenerauy*
Director of Finance

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Dissemination Agent

By: _____
Authorized Officer

SECTION 15. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City and the Dissemination Agent to the undertaking herein provided.

Dated: August 14, 2013

CITY OF MODESTO

By: _____
Director of Finance

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Dissemination Agent


By:  _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: CITY OF MODESTO

Name of Issue: DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS,
SERIES 2013G

Date of Delivery: August 14, 2013

NOTICE IS HEREBY GIVEN that the City of Modesto (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Agreement, dated August 14, 2013, between the City and Wells Fargo Bank, National Association, as Dissemination Agent. The City has informed the undersigned that it anticipates that the Annual Report will be filed by _____.

Dated: _____

WELLS FARGO BANK,
NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Authorized Officer

cc: City of Modesto

RESOLUTION NO. 2013-01

RESOLUTION OF THE MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY AUTHORIZING THE ISSUANCE BY THE MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY OF NOT TO EXCEED \$55,000,000 AGGREGATE PRINCIPAL AMOUNT OF DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS IN ONE OR MORE SERIES AND APPROVING THE FORMS AND AUTHORIZING THE EXECUTION OF A TRUST AGREEMENT, AN INSTALLMENT PURCHASE CONTRACT, A PURCHASE CONTRACT AND APPROVING THE FORM OF AN OFFICIAL STATEMENT RELATING TO SUCH BONDS, AND OTHER RELATED DOCUMENTS

WHEREAS, the Modesto Irrigation District (the "District") and the City of Redding, California have heretofore executed a Joint Exercise of Powers Agreement, dated as of July 1, 1989 (the "Joint Powers Agreement"), by and between the District and the City of Redding, California, which Joint Powers Agreement creates and establishes the Modesto Irrigation District Financing Authority (the "Authority"); and

WHEREAS, pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Marks-Roos Local Bond Pooling Act of 1985") and the Joint Powers Agreement, the Authority is authorized to undertake a revenue bond financing for public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits, as determined by the District; and

WHEREAS, the District and the Authority have previously entered into that certain Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995, and as further amended and restated February 1, 1998 (the "Amended Installment Purchase Contract"), and now desire to amend and restate further the Amended Installment Purchase Contract (such Amended Installment Purchase Contract, as further amended and restated, shall be hereinafter referred to as the "Installment Purchase Contract"); and

WHEREAS, the Authority has previously issued its Domestic Water Project Refunding Revenue Bonds, Series 1998D currently outstanding in the aggregate principal amount of \$52,620,000 (the "Prior Water Bonds") to assist in refinancing the domestic water treatment and delivery system of the District, as further described in the Installment Purchase Contract (the "Project").

WHEREAS, pursuant to the Installment Purchase Contract, the Authority agrees to assist the District by further refinancing the acquisition, design, construction, improvement and installation of the Project; and

WHEREAS, the Authority has determined that it is desirable and furthers the public purpose to refinance the acquisition, design, construction, installation and improvement of the Project by refunding and defeasing the unpaid Prior Water Bonds; and

WHEREAS, in order to refund and defease the unpaid Prior Water Bonds, the Authority desires to authorize the issuance of not to exceed \$55,000,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds in one or more series (the "2013 Bonds"); and

WHEREAS, the Authority desires to enter into (i) a Trust Agreement (as hereinafter defined) with Wells Fargo Bank, National Association, as trustee (the "Trustee"), a banking institution legally authorized to accept the trust described in the Trust Agreement for the purpose of securing the 2013 Bonds and (ii) an Installment Purchase Contract with the District, pursuant to which the Authority will provide the Project to the District and the District will agree to make installment payments to the Authority for the Project; and

WHEREAS, pursuant to the Marks-Roos Local Bond Pooling Act of 1985 and the Joint Powers Agreement, the Authority is further authorized to sell the 2013 Bonds to public or private purchasers at negotiated sale; and

WHEREAS, the Authority desires to enter into a purchase contract with one or more underwriters and to approve the form and authorize the distribution by the Underwriter of the official statement relating to the 2013 Bonds (the "Official Statement");

NOW, THEREFORE, BE IT RESOLVED by the Governing Board of the Modesto Irrigation District Financing Authority (the "Board"), as follows:

Section 1. The proposed form of Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), by and between the Authority and the Trustee, presented to this meeting, is hereby approved. The Chairperson, the Vice Chairperson or the Treasurer or their respective designees (each an "Authorized Authority Representative") are hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver to the Trustee the Trust Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The date, maturity dates, interest rate or rates, interest payment dates, denominations, forms, registration privileges, manner of execution, place or places of payment, terms of prepayment and other terms of the 2013 Bonds shall be as provided in the Trust Agreement, as finally executed.

Section 2. The proposed form of Installment Purchase Contract presented to this meeting, is hereby approved. Any Authorized Authority Representative is hereby authorized and directed, for and in the name and on behalf of the Authority to execute and deliver the Installment Purchase Contract in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The proposed form of the Purchase Contract (the "Purchase Contract") relating to the 2013 Bonds, by and between the Authority and the underwriter or underwriters named therein (collectively, the "Underwriter") is hereby approved. Any Authorized Authority Representative is hereby authorized and directed, to execute and deliver to the Underwriter the Purchase Contract in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, the final maturity of the 2013 Bonds shall be not later than September 1, 2022 and the underwriter's discount shall be not more than 0.50%.

Section 4. The proposed form of the Official Statement relating to the 2013 Bonds and presented to this meeting is hereby approved. The Underwriter is hereby authorized to distribute copies of the Official Statement relating to the 2013 Bonds, in preliminary form, to prospective purchasers of the 2013 Bonds, and is hereby directed to distribute copies of the Official Statement, in final form to all actual purchasers of the 2013 Bonds. Any Authorized Authority Representative is hereby authorized and directed, for and in the name and on behalf of the Authority to execute and deliver the Official Statement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. The 2013 Bonds in an aggregate principal amount not to exceed \$55,000,000 shall be executed by the manual or facsimile signature of any Authorized Authority Representative and attested by the manual or facsimile signature of the Secretary in the form set forth in and otherwise in accordance with the Trust Agreement. The 2013 Bonds may be issued at one time, or from time to time, in one or more series separately or differently identified. The 2013 Bonds, when so executed, shall be delivered to the Trustee for authentication. The Trustee is hereby requested and directed to authenticate the 2013 Bonds by executing the Trustee's certificate of authentication appearing thereon, and to deliver the 2013 Bonds, when duly executed and authenticated, to the Underwriter in accordance with written instructions executed on behalf of the Authority by the Chairperson or his designee, which instructions said officer is hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver to the Trustee. Such instructions shall provide for the delivery of the 2013 Bonds to the Underwriter in accordance with the Purchase Contract upon payment of the purchase price thereof.

Section 6. The Secretary is hereby authorized and directed to attest the signature of the Chairperson and to affix and attest the seal of the Authority, if any, as may be required in connection with the execution and delivery of the 2013 Bonds, the Trust Agreement, the Installment Purchase Contract, the Purchase Contract and the Official Statement.

Section 7. The members, officers and agents of the Authority are hereby authorized and directed to do all such acts and things and to execute and deliver or cause to be delivered all such documents, including, but not limited to a municipal bond insurance policy, a reserve fund surety bond policy, a continuing disclosure agreement relating to the 2013 Bonds and escrow deposit agreements (if any) relating to the refunding and defeasance of the Prior Water 2013 Bonds, as may seem to them to be necessary or desirable to carry out and comply with the provisions of this Resolution and the instruments and documents approved herein, respectively, and to execute and deliver such certificates or other documents as they may deem appropriate in order to confirm that the Official Statement has been "deemed final" by the Authority for purposes of Securities and Exchange Commission Rule 15c2-12, and all of the acts and doings of such members, officers and agents of the Authority which are in conformity with the intent and purposes of this Resolution, whether heretofore or hereafter taken or done, shall be and are hereby ratified, confirmed and approved.

Section 8. This Resolution shall take effect upon adoption by the City Council of the City of Modesto of its resolution relating to the Bonds.

PASSED AND ADOPTED on this 9th day of July, 2013, by the following vote:

AYES: Board Members Blom, Byrd, Van Groningen, and Wild

NOES: Board Members None

ABSENT: Board Member Warda



Chairperson of the Modesto Irrigation
District Financing Authority

Attest:



Secretary of the Modesto Irrigation
District Financing Authority

**CERTIFICATE OF THE SECRETARY OF THE GOVERNING
BOARD OF THE MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY**

I, Pat Caldwell Mills, Secretary of the Governing Board of the Modesto Irrigation District Financing Authority, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Governing Board of the Modesto Irrigation District Financing Authority duly and regularly held on July 9, 2013, of which meeting all of said Governing Board had due notice.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a true, complete and correct copy of the original resolution duly adopted at said meeting and entered in said minutes; and that said resolution has not been modified, amended, rescinded or revoked except as provided in such resolution in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this 9th day of July, 2013.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY

By:



Secretary of the Modesto Irrigation
District Financing Authority

**CERTIFICATE OF SECRETARY OF THE
BOARD OF DIRECTORS OF MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY**

I, PAT MILLS, Secretary of the Board of Directors of Modesto Irrigation District Financing Authority, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Board of Directors of Modesto Irrigation District Financing Authority duly and regularly held on July 9, 2013, of which meeting all of said Board of Directors had due notice.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a true, complete and correct copy of the original resolution duly adopted at said meeting and entered in said minutes; and that said resolution has not been modified, amended, rescinded or revoked except as provided in such resolution in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this 14th day of August, 2013.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By 
Secretary of the Board of Directors

RESOLUTION NO. 2013-56
RESOLUTION OF THE BOARD OF DIRECTORS OF THE MODESTO IRRIGATION
DISTRICT APPROVING THE FORM AND AUTHORIZING THE EXECUTION
AND DELIVERY OF AN INSTALLMENT PURCHASE CONTRACT, TRUST AGREEMENT,
OFFICIAL STATEMENT, PURCHASE CONTRACT, AND CERTAIN OTHER ACTIONS
REGARDING THE AUTHORIZATION OF AN INSTALLMENT PURCHASE FINANCING TO
REFINANCE CERTAIN FACILITIES RELATING TO THE DOMESTIC WATER PROJECT

WHEREAS, Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California authorizes and empowers the Modesto Irrigation District (the "District") and the City of Redding, California (the "City") to form a joint powers authority and Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Marks-Roos Local Bond Pooling Act of 1985") authorizes and empowers such an authority to cause to be issued revenue bonds for the purpose of financing public capital improvements, working capital, liability and other insurance needs or projects whenever there are significant public benefits as determined by the local agency; and

WHEREAS, pursuant to the laws of the State of California, the District and the City have created and established the Modesto Irrigation District Financing Authority (the "Authority") for the purpose of financing the acquisition, design, construction, installation and improvement of certain treatment, transmission and distribution facilities and administration facilities and equipment of the District; and

WHEREAS, the District is authorized under the provisions of the California Irrigation District Law, constituting Division 11 of the California Water Code, as amended (the "Law"), to make and perform any necessary contracts to acquire interests in and construct facilities for the generation, transmission and distribution of electricity, for the exchange, transfer and delivery of water and for other District purposes; and

WHEREAS, the District has determined that it is in the best interests of the District and its consumers and customers and is necessary and proper for District purposes that the District so acquire, design, construct and install certain facilities for the treatment, transmission, distribution and delivery of water and for other District purposes; and

WHEREAS, the District and the Authority have previously entered into that certain Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995, and as further amended and restated as of February 1, 1998 (the "Amended Installment Purchase Contract"), and now desire to amend and restate

further the Amended Installment Purchase Contract (such Amended Installment Purchase Contract, as further amended and restated, shall be hereinafter referred to as the "Installment Purchase Contract"); and

WHEREAS, pursuant to the Installment Purchase Contract, the Authority agrees to assist the District by refinancing the acquisition, design, construction, improvement and installation of the domestic water treatment and delivery system of the District, as further described in the Installment Purchase Contract (the "Project"); and

WHEREAS, the District has determined that it is desirable and furthers the public purpose and that there are significant public benefits to be derived from securing the assistance of the Authority in refinancing the acquisition, design, construction and installation of the Project, in that the District will benefit from demonstrable savings in the cost of refinancing the Project as a result of its participation in the Authority and the refinancing of the Project by the Authority pursuant to the Marks-Roos Local Bond Pooling Act of 1985; and

WHEREAS, in order to achieve such public purpose, the District desires to approve the refinancing of the Project by the Authority through the issuance of not to exceed \$55,000,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds in one or more series (the "Bonds") and to authorize the execution and delivery of the various documents as hereinafter described; and

WHEREAS, the District has full legal right, power and authority under the Law to make and perform contracts and develop, construct and acquire by any means the Project for such purposes;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Modesto Irrigation District, as follows:

Section 1. The Board of Directors of the District hereby finds and determines that the matters set forth in the preambles to this Resolution are true and correct and undertaking the actions authorized hereunder and entering into and performing under the contracts, agreements and other documents hereinafter described are in the best interests of the District and its consumers and customers and are otherwise necessary and proper in all respects for District purposes in that such actions shall permit the District to provide for the water needs of the District and its consumers and customers in a more economical, efficient and effective manner than would otherwise be possible.

Section 2. The Board of Directors of the District hereby further finds and determines that the consummation of the transactions contemplated therein shall result in significant public benefits to the District in that the District expects to benefit from demonstrable savings in costs related to financing the Project.

Section 3. The proposed forms of the Installment Purchase Contract, the Trust Agreement (the "Trust Agreement"), the Purchase Contract (the "Purchase Contract") and the Official Statement (the "Official Statement") on file with the Secretary of the District and incorporated by reference as if fully set forth herein are hereby approved in substantially the forms on file with the Secretary of the District; provided, however, that the aggregate purchase price in such Installment Purchase Contract shall be in an initial aggregate principal amount not to exceed \$55,000,000, the final maturity of the Bonds shall not exceed September 1, 2022 and the underwriter's discount with respect to the Bonds shall not exceed 0.50%. The President, the Interim General Manager, the Interim Treasurer and the Interim Assistant General Manager, Finance, or the respective designees thereof (each an "Authorized District Representative"), acting singly, be and each of them is hereby authorized to execute, and the Secretary is hereby authorized to attest, seal and deliver, the Installment Purchase Contract, the Trust Agreement and the Official Statement and the other documents described herein, in substantially such forms with such changes therein as shall be approved by the District's General Counsel and the officer executing the same, with such execution to constitute conclusive evidence of such officers' approval and the District's approval of any changes or revisions therein from the forms of such documents on file with the Secretary.

Section 4. Subject to the conditions specified in Section 3 hereof, the officers of the District are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents, certificates and other instruments, including a continuing disclosure agreement relating to the Bonds and escrow deposit agreements (if necessary) relating to the refinancing of the Project, which they may deem necessary or advisable in order to consummate the issuance of the Bonds by the Authority, all as authorized herein and as described in the Official Statement; and to execute and deliver such certificates or other documents as they may deem appropriate in order to confirm that the Official Statement has been "deemed final" by the District for purposes of Securities and Exchange Commission Rule 15c2-12, and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution and the documents herein approved and authorized to be executed.

Section 5. The District hereby designates the law firm of Orrick, Herrington & Sutcliffe LLP to serve as Bond Counsel to the District for the installment purchase financing authorized herein.

Section 6. The District hereby designates Citigroup Global Markets Inc. to serve as the senior managing underwriter for the installment purchase financing authorized herein.

Section 7. The District hereby designates First Southwest Company to serve as financial advisor for the installment purchase financing authorized herein.

Section 8. The District hereby designates Wells Fargo Bank, National Association to serve as trustee for the installment purchase financing authorized herein. Any Authorized District Representative is authorized to execute and deliver an agreement with said bank describing its duties, rights and obligations, subject to the approval of the General Counsel and as may be consistent with the Installment Purchase Contract and the Trust Agreement.

Section 9. This Resolution shall take effect upon adoption by the City Council of the City of Modesto of its resolution relating to the Bonds.

PASSED AND ADOPTED on this 9th day of July, 2013, by the following vote:

AYES: Board Members Blom, Byrd, Van Groningen, and Wild

NOES: Board Members None

ABSENT: Board Member Warda



President of the Board of Directors
of the Modesto Irrigation District

Attest:



Secretary of the Board of Directors
of the Modesto Irrigation District

**CERTIFICATE OF THE SECRETARY OF THE BOARD OF
DIRECTORS OF THE MODESTO IRRIGATION DISTRICT**

I, Pat Caldwell Mills, Secretary of the Board of Directors of the Modesto Irrigation District, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Board of Directors of the Modesto Irrigation District duly and regularly held on July 9, 2013, of which meeting all of said Board of Directors had due notice.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a true, complete and correct copy of the original resolution duly adopted at said meeting and entered in said minutes; and that said resolution has not been modified, amended, rescinded or revoked except as provided in such resolution in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this 9th day of July, 2013.

MODESTO IRRIGATION DISTRICT BOARD OF DIRECTORS

By:



Secretary of the Board of Directors

**CERTIFICATE OF SECRETARY OF THE
BOARD OF DIRECTORS OF MODESTO IRRIGATION DISTRICT**

I, PAT MILLS, Secretary of the Board of Directors of Modesto Irrigation District, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Board of Directors of Modesto Irrigation District duly and regularly held on July 9, 2013, of which meeting all of said Board of Directors had due notice.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a true, complete and correct copy of the original resolution duly adopted at said meeting and entered in said minutes; and that said resolution has not been modified, amended, rescinded or revoked except as provided in such resolution in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this 14th day of August, 2013.

MODESTO IRRIGATION DISTRICT

By Pat Mills
Secretary of the Board of Directors

**MODESTO CITY COUNCIL
RESOLUTION NO. 2013-256**

A RESOLUTION APPROVING THE ISSUANCE OF REFUNDING REVENUE BONDS BY THE MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY RELATED TO THE REFINANCING OF THE MODESTO IRRIGATION DISTRICT DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS, SERIES 1998D USED TO CONSTRUCT THE DOMESTIC WATER TREATMENT AND DELIVERY SYSTEM OF THE MODESTO IRRIGATION DISTRICT

WHEREAS, the City of Modesto, a charter city and municipal corporation organized and existing under the laws of the State of California (the "City"), currently provides municipal water service within the service boundaries of the Modesto Irrigation District (the "District"), and

WHEREAS, the District and the Modesto Irrigation District Financing Authority, a joint powers authority organized and existing under the laws of the State of California, have refinanced the domestic water treatment and delivery system of the District (the "Project") through the issuance of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 1998D currently outstanding in the aggregate principal amount of \$52,620,000 (the "Prior Water Bonds"), and

WHEREAS, the District desires to further refinance the Project through the issuance of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds in one or more series (the "2013 Bonds"), the proceeds of which will be used to refund and defease the outstanding principal amount of the Prior Water Bonds, and

WHEREAS, the 2013 Bonds will be issued for the benefit of the City's Municipal Water Utility and will be repaid from the debt service portion of payments made by the City in accordance with the Amended and Restated Treatment and Delivery Agreement

entered into in 2005 by the City and the District, as amended by Financing Amendments to Amended and Restated Treatment and Delivery Agreement entered into in 2007 by the City and the District (the "Treatment and Delivery Agreement"),

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Modesto as follows:

SECTION 1. The City Council of the City hereby finds and determines that the matters set forth in the preambles to this Resolution are true and correct.

SECTION 2. The City Council of the City hereby approves of the issuance of the 2013 Bonds by the Authority at one time, or from time to time, in one or more series separately or differently identified for the benefit of the City's Municipal Water Utility; provided, however, that the aggregate principal amount of the 2013 Bonds shall not exceed \$55,000,000, the final maturity of the 2013 Bonds shall not exceed September 1, 2022 and the underwriter's discount with respect to the 2013 Bonds shall not exceed 0.50%.

SECTION 3. The proposed form of the Official Statement relating to the 2013 Bonds (the "Official Statement") as presented to this meeting is hereby approved. The underwriters with respect to the 2013 Bonds, is hereby authorized to distribute copies of the Official Statement in preliminary form to prospective purchasers of the 2013 Bonds and is hereby directed to distribute copies of the Official Statement in final form to all actual purchasers of the 2013 Bonds. The Mayor, the City Manager or Finance Director is hereby authorized to certify that the preliminary official statement as of its date is "deemed final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The Mayor, the City Manager or Finance Director is hereby authorized and

directed to execute and deliver a final Official Statement, in substantially the form as such deemed final Preliminary Official Statement.

SECTION 4. The Treatment and Delivery Agreement is ratified and confirmed.

SECTION 5. Subject to the conditions specified in Section 2 hereof, the Mayor, the Finance Director and the City Manager (or his or her designee) are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents, certificates and other instruments, including, but not limited to, a continuing disclosure agreement and a tax certificate relating to the 2013 Bonds, which they may deem necessary or advisable, to carry out, give effect to and comply with the terms and intent of this Resolution.

SECTION 6. This Resolution shall take effect immediately upon its adoption.

The foregoing resolution was introduced at a regular meeting of the City Council of the City of Modesto held on the 9th day of July, 2013, by Councilmember Cogdill, who moved its adoption, which motion being duly seconded by Councilmember Burnside, was upon roll call carried and the Resolution adopted by the following vote:

AYES: Councilmembers: Burnside, Cogdill, Geer, Gunderson, Lopez, Muratorc, Mayor Marsh

NOES: Councilmembers: None

ABSENT: Councilmembers: None

ATTEST:


STEPHANIE LOPEZ, City Clerk

(SEAL)

APPROVED AS TO FORM:

By: 
SUSANA ALCALA WOOD, City Attorney

THIS IS TO CERTIFY THAT THIS IS A TRUE COPY OF THE DOCUMENT ON FILE WITH THIS OFFICE.

DATE August 5, 2013



SIGNATURE
CITY CLERK

CITY OF MODESTO, CA

2013-256

**CERTIFICATE OF THE CITY CLERK
OF THE CITY OF MODESTO**

I, STEPHANIE LOPEZ, City Clerk of the City of Modesto, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at a meeting of the City Council of the City of Modesto duly and regularly held on July 9, 2013, of which meeting all of said City Council had due notice.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a true, complete and correct copy of the original resolution duly adopted at said meeting and entered in said minutes; and that said resolution has not been modified, amended, rescinded or revoked except as provided in such resolution in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate this 14th day of August, 2013.

CITY OF MODESTO

By Stephanie Lopez
City Clerk

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS,
SERIES 2013G

PURCHASE CONTRACT

July 31, 2013

Board of Directors
Modesto Irrigation District Financing Authority
Modesto, California

Gentlemen:

The undersigned Citigroup Global Markets Inc., as underwriter (the “Underwriter”), hereby offers to enter into this Purchase Contract (the “Purchase Contract”) with you, the Modesto Irrigation District Financing Authority (the “Authority”), which, upon the Authority’s acceptance of this offer, will be binding upon the Authority and the Underwriter. This offer is made subject to acceptance by the Authority by execution and delivery of this Purchase Contract prior to 11:59 P.M., California time, on the date hereof. If this offer is not so accepted, this offer will be subject to withdrawal by the Underwriter upon notice delivered to the Authority at any time prior to acceptance. Upon acceptance, this Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon the Authority and the Underwriter. All capitalized terms used herein not otherwise defined herein shall have the respective meanings ascribed thereto in the Official Statement (as hereinafter defined).

The Authority acknowledges and agrees that (i) the purchase and sale of the Series 2013 Water Bonds (as hereinafter defined) pursuant to this Purchase Contract is an arm’s-length commercial transaction between the Authority and the Underwriter, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and not as the agent, advisor or fiduciary of the Authority, (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the Authority, the District (as hereinafter defined) or the City (as hereinafter defined) with respect to the offering of the Series 2013 Water Bonds or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter, has provided other services or is currently providing other services to the Authority, the District or the City on other matters) and the Underwriter has no obligation to the Authority, the District or the City with respect to the offering contemplated hereby except the obligations expressly set forth in this Purchase Contract, and (iv) the Authority has consulted with its own legal, financial and other advisors to the extent it has deemed appropriate in connection with the offering of the Series 2013 Water Bonds.

1. Purchase, Sale and Delivery of the Series 2013 Water Bonds.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein and in the Letter of Representations, dated the date hereof, in the form attached hereto as Exhibit B, the Underwriter hereby agrees to purchase and the Authority agrees to sell and deliver to the Underwriter all (but not less than all) of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the "Series 2013 Water Bonds").

(b) The Series 2013 Water Bonds are being issued to provide funds to (i) refinance a portion of the costs of the original Domestic Water Project of the District by refunding and retiring all of the Authority's outstanding Domestic Water Project Refunding Revenue Bonds, Series 1998D (the "Series 1998D Water Bonds"), (ii) purchase an insurance policy for the funding of a reserve fund for the Series 2013 Water Bonds and (iii) pay costs of issuance of the Series 2013 Water Bonds, as more fully described in the Official Statement (as hereinafter defined).

The Series 2013 Water Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, consisting of Article 4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California (commencing with Section 6584) (the "Act"), a resolution adopted by the Board of Directors of the Authority on July 9, 2013 (the "Authority Resolution") authorizing the Series 2013 Water Bonds, and a Trust Agreement, executed and entered into as of August 1, 2013 (the "Trust Agreement"), among the Authority, the Modesto Irrigation District (the "District") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Series 2013 Water Bonds will be dated their date of issuance. The Series 2013 Water Bonds shall have the maturities and shall bear interest at the rates as described in Exhibit A hereto. The Series 2013 Water Bonds shall be substantially in the form described in, and shall be issued and secured under, the provisions of the Trust Agreement. The Series 2013 Water Bonds shall be payable solely from Revenues of the Authority, consisting principally of installment payments (the "Series 2013 Installment Payments") received by the Authority from the District pursuant to the Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995 and as further amended and restated as of February 1, 1998 and as further amended and restated as of August 1, 2013 (the "Installment Purchase Contract"), by and between the District and the Authority. Pursuant to the Trust Agreement the Authority will assign, without recourse, any and all of its rights to receive the Series 2013 Installment Payments under the Installment Purchase Contract to the Trustee.

The District entered into a Treatment and Delivery Agreement in 1992 with the City of Modesto (the "City"), as superseded by an Amended and Restated Treatment and Delivery Agreement entered into in 2005 between the District and the City, as amended by certain Financing Amendments to such Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as so superseded and amended, the "Treatment and Delivery Agreement"). Pursuant to the Treatment and Delivery Agreement, the District agreed to construct and operate a surface water treatment plant and distribution facilities, including an expansion thereof (collectively, the "Domestic Water Project"), and to supply treated water from the Domestic Water Project to the City, in consideration for which the City has agreed to pay,

subject to the terms of the Treatment and Delivery Agreement, the costs of the operation of the Domestic Water Project as well as Debt Service (as defined in the Treatment and Delivery Agreement) relating to the Domestic Water Project (including the Series 2013 Installment Payments). The Series 2013 Installment Payments to be paid by the District under the Installment Purchase Contract are payable from and secured by a pledge of and first lien on all Treatment and Delivery Revenues (as defined in the Installment Purchase Contract) received by the District from the City under the Treatment and Delivery Agreement.

In connection with the issuance of the Series 2013 Water Bonds, the City will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain enumerated events. A description of this undertaking is set forth in the Preliminary Official Statement (as hereinafter defined) and will also be set forth in the final Official Statement.

The scheduled payment of principal of and interest on the Series 2013 Water Bonds maturing on September 1 of the years 2019 through 2022, inclusive (the "Insured Series 2013 Water Bonds"), when due will be guaranteed under a municipal bond insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Insured Series 2013 Water Bonds by Assured Guaranty Municipal Corp. ("Assured"). Assured will also provide a municipal bond debt service reserve insurance policy (the "Reserve Policy") for the purpose of funding the reserve fund for the Series 2013 Water Bonds.

(c) The aggregate purchase price for the Series 2013 Water Bonds shall be \$48,823,332.86 (consisting of the principal amount of the Series 2013 Water Bonds in the amount of \$43,270,000.00 less \$153,929.09 of Underwriter's discount and plus \$5,707,261.95 of original issue premium). From such purchase price, the Underwriter will wire the premium for the Bond Insurance Policy and the Reserve Policy directly to Assured.

(d) At 8:00 o'clock A.M., California time, on August 14, 2013, or at such other time or on such other date as the Authority and the Underwriter mutually agree upon (the "Closing Date"), the Authority will, subject to the terms and conditions hereof, deliver or cause to be delivered to the Underwriter, the duly executed Series 2013 Water Bonds (delivered through the book-entry system of The Depository Trust Company, by fast automated securities transfer (FAST)), and at the offices of Orrick, Herrington & Sutcliffe LLP, 405 Howard Street, San Francisco, California 94105, or at such other place as shall have been mutually agreed upon by the Authority and the Underwriter, the other documents mentioned herein. The Underwriter will accept such delivery and pay the purchase price of the Series 2013 Water Bonds as set forth in Section 1(c) above in immediately available funds (such delivery and payment being herein referred to as the "Closing") to the order of the Trustee in an amount equal to the purchase price.

(e) The Underwriter agrees to make a bona fide public offering of the Series 2013 Water Bonds at the initial offering prices (or yields) set forth on the inside cover of the Official Statement; provided, that the Series 2013 Water Bonds may be offered and sold to certain dealers, unit investment trusts and money market funds at prices lower (or yields higher) than such public offering prices (or yields), and the Underwriter may effect transactions that stabilize or maintain the market price of the Series 2013 Water Bonds. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as

they deem necessary in connection with the marketing of the Series 2013 Water Bonds. On the Closing Date, the Underwriter agrees to execute and deliver a written certificate, in form and substance satisfactory to Bond Counsel (defined herein), that will enable Bond Counsel to determine the issue price of the Series 2013 Water Bonds in accordance with the Internal Revenue Code of 1986, as amended.

2. Use and Preparation of Official Statement.

The Authority hereby ratifies, confirms and approves of the use and distribution by the Underwriter prior to the date hereof of the Preliminary Official Statement dated July 25, 2013 relating to the Series 2013 Water Bonds (which, including the cover page and all appendices thereto, is referred to herein as the "Preliminary Official Statement"). The Authority, the District and the City have deemed final the Preliminary Official Statement as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12. The Authority hereby acknowledges that the Preliminary Official Statement has been made available to investors in electronic form. The Authority hereby agrees to deliver or cause to be delivered to the Underwriter, within seven (7) business days of the date hereof and in sufficient time to accompany any confirmation that requests payment from a customer, copies of the final Official Statement dated the date hereof relating to the Series 2013 Water Bonds (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Authority and the Underwriter, the "Official Statement") in sufficient quantity and in such format to enable the Underwriter to comply with Section (b)(4) of Rule 15c2-12 and the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board (the "MSRB"). The Authority hereby approves of the use and distribution by the Underwriter of the Official Statement in connection with the offer and sale of the Series 2013 Water Bonds. The Underwriters hereby agree to deliver a copy of the Official Statement to the MSRB in accordance with the applicable rules of the MSRB. The District hereby acknowledges that the Official Statement will be made available to investors in electronic form.

The Authority hereby authorizes the Underwriter to use the forms of or copies of the Official Statement, the Trust Agreement and the Continuing Disclosure Agreement in connection with the public offering and sale of the Series 2013 Water Bonds. The Trust Agreement, the Continuing Disclosure Agreement, the Installment Purchase Contract, and this Purchase Contract are collectively referred to herein as the "Legal Documents."

3. Representations, Warranties and Agreements of the Authority.

The Authority hereby represents, warrants and agrees with the Underwriter as follows:

(a) The Authority is, and will be on the Closing Date, a joint powers agency of the State of California organized and operating pursuant to the laws of the State of California with the full power and authority to issue the Series 2013 Water Bonds pursuant to the Act, to execute and deliver the Official Statement and to enter into the Legal Documents to which it is a party;

(b) By all necessary official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has duly approved, ratified and confirmed the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in Legal Documents to which it is a party and the consummation by it of all other transactions contemplated by the Official Statement and the Legal Documents to which it is a party;

(c) The Authority is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or to which the Authority or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default in any material respect under any such instrument; and the issuance of the Series 2013 Water Bonds and the execution and delivery of the Official Statement and the Legal Documents, and compliance with the provisions on the Authority's part contained herein and therein, will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Trust Agreement or the Installment Purchase Contract;

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best knowledge of the Authority after reasonable investigation, threatened against the Authority in any material respect affecting the existence of the Authority or the titles of its officers to their respective offices or affecting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Series 2013 Water Bonds or contesting or affecting, as to the Authority, the validity or enforceability of the Series 2013 Water Bonds, the Installment Purchase Contract, the Trust Agreement or this Purchase Contract or contesting the powers of the Authority or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Legal Documents;

(e) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely

affect the due performance by, the Authority of its obligations in connection with the issuance, offering and sale of the Series 2013 Water Bonds under the Trust Agreement have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Series 2013 Water Bonds; and, except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Authority of its obligations under the Legal Documents have been duly obtained;

(f) The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Series 2013 Water Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Series 2013 Water Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for distribution of the Series 2013 Water Bonds; provided, however, that in no event shall the Authority be required to take any action which would subject it to service of process in any jurisdiction in which it is not now so subject;

(g) As of the date thereof and as of the date hereof, the Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(h) As of the date hereof and at all times subsequent thereto to and including the date which is 25 days following the End of the Underwriting Period (as such term is hereinafter defined) for the Series 2013 Water Bonds, the Official Statement did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(i) If between the date hereof and the date which is 25 days following the End of the Underwriting Period for the Series 2013 Water Bonds, an event occurs which might or would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the Authority will notify the Underwriter, and, if in the opinion of the Authority, the Underwriter or their respective counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will forthwith prepare and furnish to the Underwriter (at the expense of the Authority) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) which will amend or

supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to prospective purchasers, not misleading. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Series 2013 Water Bonds, the Authority will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(j) If the information contained in the Official Statement is amended or supplemented pursuant to Section 3(i) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such section) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Series 2013 Water Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading;

(k) After the Closing, the Authority will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing or which should be disapproved by counsel for the Underwriter;

(l) As used herein and for the purposes of the foregoing, the term "End of the Underwriting Period" for the Series 2013 Water Bonds shall mean the earlier of (i) the Closing Date unless the Authority shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date, or (ii) the date on which the End of the Underwriting Period for the Series 2013 Water Bonds has occurred under Rule 15c2-12; provided, however, that the Authority may treat as the End of the Underwriting Period for the Series 2013 Water Bonds the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period;

(m) Between the date of this Purchase Contract and the Closing Date, the Authority will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, nor will there be any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the Authority, in either case other than in the ordinary course of its business or as discussed in the Official Statement;

(n) The Authority will apply, or cause the application of, the proceeds of the Series 2013 Water Bonds in accordance with the Installment Purchase Contract and the Trust Agreement;

(o) Any certificate signed by any authorized official of the Authority, and delivered to the Underwriter in connection with the issuance of the Series 2013 Water

Bonds, shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein.

4. Conditions to the Obligations of the Underwriter.

The Underwriter hereby enters into this Purchase Contract in reliance upon the representations and warranties of the Authority contained herein, the representations and warranties of the City contained in the Letter of Representations and the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Authority of its obligations both on and as of the date hereof and as of the Closing Date. Accordingly, the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Series 2013 Water Bonds shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties of the Authority contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the Authority made in any certificate or other document furnished pursuant to the provisions hereof, to the performance by the Authority of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing Date, to the accuracy in all material respects of the representations and warranties of the City contained in the Letter of Representations, to the accuracy in all material respects of the statements of the officers and other officials of the City and the District, respectively, made in any certificate or other document furnished pursuant to the provisions hereof, and also shall be subject to the following additional conditions:

(a) Prior to or simultaneously with the execution of this Purchase Contract, the Underwriter shall receive from the City the Letter of Representations, dated the date hereof, addressed to the Authority and the Underwriter, in the form attached hereto as Exhibit B;

(b) The Underwriter shall receive, within seven (7) business days of the date hereof, copies of the Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Underwriter), in such reasonable quantity as the Underwriter shall have requested;

(c) The representations and warranties of the Authority contained herein and the representations and warranties of the City contained in the Letter of Representations shall be true and correct on the date hereof and on the Closing Date, as if made on and at the Closing Date;

(d) At the Closing, the Trust Agreement and the Installment Purchase Contract shall have been duly authorized, executed and delivered by the respective parties thereto, and the Official Statement shall have been duly authorized, executed and delivered by the Authority, all in substantially the forms heretofore submitted to the Underwriter, with only such changes as shall have been agreed to in writing by the Underwriter, and shall be in full force and effect; and there shall be in full force and effect the Authority Resolution and such resolution or resolutions of the Board of

Directors of the District (the “District Resolution”) and the City Council of the City (the “City Resolution”) as, in the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California (hereinafter, “Bond Counsel”), and Fulbright & Jaworski LLP, Los Angeles, California, counsel to the Underwriter (hereinafter, “Underwriter’s Counsel”), shall be necessary or appropriate in connection with the transactions contemplated hereby;

(e) Between the date hereof and the Closing Date, the market price or marketability, at the initial offering price set forth in the Official Statement, of the Series 2013 Water Bonds shall not have been materially adversely affected, in the judgment of the Underwriter (evidenced by a written notice to the Authority terminating the obligation of the Underwriter to accept delivery of and make any payment for the Series 2013 Water Bonds), by reason of any of the following:

(1) an amendment to the Constitution of the United States or the State of California shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the legislature of any state having jurisdiction of the subject matter or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to any state having jurisdiction of the subject matter or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by either such Committee by any member thereof or presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House or by a Conference Committee of both Houses to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State of California or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State of California authority, with respect to federal or State of California taxation upon revenues or other income of the general character to be derived by the Authority or upon interest received with respect to obligations of the general character of the Series 2013 Water Bonds which, in the reasonable judgment of the Underwriter, may have the purpose or effect, directly or indirectly, of affecting the tax status of the Authority, its property or income, its securities (including the Series 2013 Water Bonds) or the interest thereon, or any tax exemption granted or authorized by State of California legislation or, in the reasonable judgment of the Underwriter, materially and adversely affecting

the market for the Series 2013 Water Bonds or the market price generally of obligations of the general character of the Series 2013 Water Bonds;

(2) legislation enacted, introduced in the Congress or recommended for passage by the President of the United States, or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter shall have been made or issued to the effect that obligations of the general character of the Series 2013 Water Bonds, or the Series 2013 Water Bonds, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Trust Agreement is not exempt from qualification under the Trust Indenture Act of 1939, as amended;

(3) the declaration of war or any outbreak of or escalation of hostilities or acts of terrorism involving the United States or the occurrence of any other national or international emergency or calamity, crisis or event relating to the effective operation of the government of, or the financial community in, the United States;

(4) the declaration of a general banking moratorium by federal, State of New York or State of California authorities, or the general suspension of trading on any national securities exchange or any material disruption in commercial banking or securities settlement or clearing services;

(5) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Series 2013 Water Bonds or obligations of the general character of the Series 2013 Water Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(6) an order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Series 2013 Water Bonds, or the issuance, offering or sale of the Series 2013 Water Bonds, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(7) the downgrading, suspension or withdrawal, or any official statement as to a possible downgrading, suspension or withdrawal, of any rating of the Series 2013 Water Bonds or other Domestic Water Bonds or any City

Parity Obligations by any rating agency then rating such Series 2013 Water Bonds, other Domestic Water Bonds or City Parity Obligations;

(8) a material adverse change in the condition (financial or otherwise) of the Domestic Water Project or the City Water Utility System, whether or not arising from transactions in the ordinary course of business; or

(9) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) At or prior to the Closing Date, the Underwriter shall have received the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) The Official Statement and each supplement or amendment, if any thereto, executed on behalf of the Authority;

(2) Copies of the Legal Documents, each duly executed and delivered by the respective parties thereto;

(3) A certified copy of the Treatment and Delivery Agreement, duly executed and delivered by the parties thereto;

(4) A copy of the Continuing Disclosure Agreement, duly executed and delivered by the parties thereto;

(5) The approving opinion of Bond Counsel, dated the Closing Date and addressed to the Authority, in substantially the form attached to the Official Statement as Appendix D thereto, and a letter of such counsel, dated the Closing Date and addressed to the Underwriter and the Trustee, to the effect that such opinion may be relied upon by the Underwriter and the Trustee to the same extent as if such opinion were addressed to them;

(6) The supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit C;

(7) The opinion of legal counsel to the District, as counsel to the Authority, dated the Closing Date and addressed to Assured and the Underwriter in substantially the form attached hereto as Exhibit D;

(8) The opinion of legal counsel to the District, dated the Closing Date and addressed to Assured and the Underwriter in substantially the form attached hereto as Exhibit E;

(9) The opinion of counsel to the Trustee, dated the Closing Date and addressed to the Underwriter, in substantially the form attached hereto as Exhibit F;

(10) The opinion of Underwriter's Counsel, dated the Closing Date and addressed to the Underwriter, to the effect that (i) the Series 2013 Water Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended; (ii) assuming the due authorization, execution and delivery of the Continuing Disclosure Agreement by the parties thereto and the enforceability thereof, the Continuing Disclosure Agreement satisfies section (b)(5)(i) of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, which requires an undertaking for the benefit of the holders, including beneficial owners, of the Series 2013 Water Bonds to provide certain annual financial information and certain event notices to various information repositories at the time and in the manner required by such Rule; and (iii) on the basis of the information made available to such firm in the course of acting as counsel to the Underwriter (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Official Statement), no facts have come to the attention of the personnel in such firm directly involved in rendering legal advice and assistance to the Underwriter in connection with the preparation of the Official Statement that cause them to believe that the Official Statement as of its date or as of the Closing Date (excluding therefrom financial, demographic and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to DTC, Cede & Co. and the operation of the book-entry system; statements relating to Assured, the Bond Insurance Policy and the Reserve Policy included therein; statements relating to the treatment of the Series 2013 Water Bonds or the interest, discount or premium, if any, related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the captions "TAX MATTERS," and in the Appendices to the Official Statement; as to all of which they express no view) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(11) A certificate or certificates, dated the Closing Date, signed by a duly authorized official of the Authority satisfactory to the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that (a) the representations and warranties of the Authority contained in this Purchase Contract are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (b) except as described in the Official Statement, no litigation is pending or, to the best knowledge of such official after reasonable investigation, threatened (i) to restrain or enjoin the execution, sale or delivery of any of the Series 2013 Water Bonds; (ii) in any way affecting the validity of the Series 2013 Water Bonds, this Purchase Contract, the Trust Agreement or the Installment Purchase Contract, or (iii) in any way

contesting the existence or powers of the Authority; and (c) no event affecting the Authority has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement relating to the Authority or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein relating to the Authority not misleading in any material respect;

(12) A certificate or certificates, dated the Closing Date, signed by a duly authorized official of the District satisfactory to the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that (a) the representations, warranties and covenants of the District contained in the Installment Purchase Contract and the Treatment and Delivery Agreement are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date; (b) there is no action, suit, proceeding or investigation, at law or in equity before or by any court, government agency, public board or body pending or, to the best knowledge of such official after reasonable investigation, threatened in any way contesting or affecting the validity of the Installment Purchase Contract, the Treatment and Delivery Agreement or in any way contesting the existence or powers of the District, nor to the best knowledge of such official after reasonable investigation, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the District of the Installment Purchase Contract or the Treatment and Delivery Agreement; (c) the information in the Official Statement under the captions "THE DOMESTIC WATER PROJECT" and "THE MODESTO IRRIGATION DISTRICT" does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (d) to the best of such official's knowledge, no event affecting the District has occurred since the date of the Official Statement which should be disclosed in the Official Statement so that the Official Statement will not contain any untrue statement of a material fact and which has not been disclosed in a supplement or amendment to the Official Statement;

(13) A certificate or certificates, dated the Closing Date, signed by a duly authorized official of the City satisfactory to the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that (a) the representations and warranties made by the City in the Letter of Representations are true and correct as of the Closing Date, provided that, as to the representations contained in the Letter of Representations, references to "the date hereof" shall be deemed to be the Closing Date; (b) there is no action, suit, preceding or investigation, at law or in equity before or by any court, government agency, public board or body pending or, to the best knowledge of such official after reasonable investigation, threatened in any way contesting or affecting the validity of the Treatment and Delivery Agreement or in any way contesting the existence or powers of the City, nor to the best knowledge of such official after reasonable investigation, is there

any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the City of the Treatment and Delivery Agreement; (c) the financial information regarding the City's Water Utility System contained in the Official Statement fairly presents the financial position of the City's Water Utility System; (d) to the best of such official's knowledge, no event affecting the City and the City's Water Utility System has occurred since the date of the Official Statement which should be disclosed in the Official Statement so that the Official Statement will not contain any untrue statement of a material fact and which has not been disclosed in a supplement or amendment to the Official Statement; and (e) since June 30, 2012, except as referred to in or as contemplated by the Official Statement, with respect to the City's Water Utility System, the City has not incurred any financial liabilities, direct or contingent, or entered into any transactions and there has not been any adverse change in the condition, financial or physical, of the City's Water Utility System, in any case that would materially and adversely affect the ability of the City to meet its obligations under the Treatment and Delivery Agreement;

(14) A certificate, dated the Closing Date, signed by a duly authorized official of the Trustee, satisfactory in form and substance to the Underwriter, to the effect that: (a) the Trustee is a national banking association duly organized and existing under and by virtue of the laws of the United States of America, the Trustee having the full power and being qualified to enter into and perform its duties under the Trust Agreement; (b) the execution and delivery of the Trust Agreement and compliance with the provisions on the Trustee's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Trustee is a party or is otherwise subject; and (c) to such officer's knowledge, the Trustee has not been served with any action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, nor is any such action threatened against the Trustee, as such but not in its individual capacity, affecting the existence of the Trustee, or the titles of its officers to their respective offices, or contesting or affecting the validity or enforceability of the Trust Agreement against the Trustee, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its respective obligations under the foregoing, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Trust Agreement against the Trustee;

(15) The opinion(s) of the City Attorney and/or Sidley Austin LLP, as counsel to the City, dated the Closing Date and addressed to Assured and the Underwriter, to the effect that (a) the City is, and was at all relevant times, a charter city and municipal corporation duly organized and validly existing under the laws of the State of California; (b) the City Resolution was duly adopted at a meeting of the City Council of the City which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and

acting throughout, and the City Resolution is in full force and effect and has not been modified, amended or rescinded as of the date hereof; (c) the adoption of the City Resolution, the execution and delivery of the Continuing Disclosure Agreement, and compliance by the City with the foregoing and with the Treatment and Delivery Agreement, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City, a breach or default under any agreement or instrument to which the City is a party or by which it is bound or, to the best of my knowledge, any existing law, regulation, court order or consent decree to which the City is subject; (d) the City is in compliance with all material terms of the Treatment and Delivery Agreement to be complied with by the City and such document is in full force and effect as to the City; (e) the Official Statement has been duly authorized, executed and delivered, and the Continuing Disclosure Agreement and the Treatment and Delivery Agreement have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, the Continuing Disclosure Agreement and the Treatment and Delivery Agreement constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against public agencies in the State of California; (f) except as described in the Official Statement, no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the Continuing Disclosure Agreement or for the performance by the City of the Treatment and Delivery Agreement, or for the adoption of the City Resolution which has not been obtained; (g) without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement and based upon the information made available to such counsel in the course of its participation in the preparation of the Official Statement as counsel for the City, nothing has come to such counsel's attention which would cause such counsel to believe that the information contained in the Official Statement relating to the City and the City's Water Utility System (excluding therefrom the financial statements and the statistical data included in the Official Statement, the information relating to DTC and the book-entry system, Assured, the Bond Insurance Policy and the Reserve Policy, as to which no opinion is expressed), as of the date thereof and the Closing Date, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (h) there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending (with service of process having been accomplished) or, to the current actual knowledge of such counsel after reasonable investigation, threatened

against or affecting the City, in any way contesting or affecting the validity of the Treatment and Delivery Agreement.

(16) A copy of the Official Statement, executed on behalf of the Authority, the District and the City by authorized representatives of the Authority, the District and the City;

(17) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Trust Agreement and the Continuing Disclosure Agreement;

(18) A certified copy of the Authority Resolution;

(19) A certified copy of the District Resolution;

(20) A certified copy of the City Resolution;

(21) The Bond Insurance Policy and the Reserve Policy, duly executed and issued by Assured, together with an opinion of counsel to Assured, dated the Closing Date and addressed to the Authority and the Underwriter, in the form previously submitted to the Underwriter, together with a certificate of the Bond Insurer with respect to the information under the caption "BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS" contained in the Official Statement;

(22) Evidence that any ratings described in the Official Statement are in full force and effect as of the Closing Date;

(23) A copy of the Blue Sky Memorandum with respect to the Series 2013 Water Bonds, prepared by Underwriter's Counsel;

(24) A copy of the audited financial statements of the City included or incorporated by reference as Appendix B to the Official Statement;

(25) A Tax Certificate signed by the Authority and the District relating to the Series 2013 Water Bonds and the Installment Purchase Contract, in form and substance satisfactory to Bond Counsel and a completed Form 8038-G of the Internal Revenue Service for the Series 2013 Water Bonds, executed by the Authority; and

(26) Such additional legal opinions, certificates, proceedings, instruments, other insurance policies or evidences thereof and other documents as the Underwriter, Underwriter's Counsel or Bond Counsel may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the representations of the Authority herein and of the statements and information contained in the Official Statement, and the due performance or satisfaction by the Authority at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the Authority in connection

with the transactions contemplated hereby and by the Trust Agreement, the Installment Purchase Contract and the Official Statement.

If the Authority shall be unable to satisfy the conditions to the Underwriter's obligations contained in this Purchase Contract or if the Underwriter's obligations shall be terminated for any reason permitted herein, all obligations of the Underwriter hereunder may be terminated by the Underwriter at, or at any time prior to, the Closing Date by written notice to the Authority and neither the Underwriter nor the Authority shall have any further obligations hereunder. In the event that the Underwriter shall fail (other than for a reason permitted by this Purchase Contract) to accept and pay for the Series 2013 Water Bonds at the Closing, the amount of one percent (1%) of the principal amount of the Series 2013 Water Bonds will be accepted as liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriter and the acceptance of such amount shall constitute a full release and discharge of all claims and rights of the Authority against the Underwriter.

5. Expenses.

All expenses and costs incident to the authorization, issuance and sale of the Series 2013 Water Bonds to the Underwriter, including the costs of printing of the Series 2013 Water Bonds, the Preliminary Official Statement, the Official Statement and the Blue Sky Memorandum, the cost of duplicating the Trust Agreement, the Installment Purchase Contract, the Continuing Disclosure Agreement, any bond insurance and reserve policy fees payable with respect to the Series 2013 Water Bonds, the fees of accountants, consultants and rating agencies, the initial fee of the Trustee and its counsel in connection with the issuance of the Series 2013 Water Bonds and the fees and expenses of Bond Counsel shall be paid from the proceeds of the Series 2013 Water Bonds. In the event that the Series 2013 Water Bonds for any reason are not issued, or to the extent proceeds of the Series 2013 Water Bonds are insufficient or unavailable therefor, any fees, costs and expenses owed by the Authority, which otherwise would have been paid from the proceeds of the Series 2013 Water Bonds, shall be paid by the Authority. All out-of-pocket expenses of the Underwriter, including traveling and other expenses, the California Debt and Investment Advisory Commission fee and the fees and expenses of Underwriter's Counsel, shall be paid by the Underwriter (which expenses may be recovered by the Underwriter in the expense component of the underwriter's discount). The Underwriter is required to pay the fees of the California Debt and Investment Advisory Commission in connection with the offering of the Series 2013 Water Bonds. The Authority acknowledges that it has had an opportunity, in consultation with such advisors as it may deem appropriate, if any, to evaluate and consider such fees. Notwithstanding that such fees are solely the legal obligation of the Underwriter, the Authority agrees to reimburse the Underwriter for such fees. The Authority shall pay for expenses incurred on behalf of the Authority's employees which are incidental to implementing this Purchase Contract, including but not limited to, meals, transportation, lodging, and entertainment of such employees.

6. Notices.

Any notice or other communication to be given under this Purchase Contract may be given by delivering the same in writing to the respective parties at the following address:

Underwriter: Citigroup Global Markets Inc.
444 South Flower Street, 27th Floor
Los Angeles, California 90071
Attention: Steve Dworkin, Managing Director

Authority: Modesto Irrigation District Financing Authority
c/o Modesto Irrigation District
1231 Eleventh Street
Modesto, California 95354
Attention: Acting Assistant General Manager, Finance

7. Survival of Representations and Warranties.

The representations and warranties of the Authority set forth in or made pursuant to this Purchase Contract shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Purchase Contract and regardless of any investigations or statements as to the results thereof made by or on behalf of the Underwriter and regardless of delivery of and payment for the Series 2013 Water Bonds. All of the Authority's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of the Underwriter; (ii) delivery of and payment for the Series 2013 Water Bonds pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

8. Effectiveness and Counterpart Signatures.

This Purchase Contract shall become effective and binding upon the respective parties hereto upon the execution and acceptance hereof by a duly authorized officer of the Authority and shall be valid and enforceable as of the time of such execution and acceptance. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

9. Parties in Interest.

This Purchase Contract is made solely for the benefit of the Authority, the City and the Underwriter (including the successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

*

10. Headings.

The headings of the sections of this Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

11. Governing Law.

This Purchase Contract shall be construed in accordance with the laws of the State of California.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC.,
as Underwriter

By: 

Managing Director

ACCEPTED:

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By: _____

Interim Treasurer

10. Headings.

The headings of the sections of this Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

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This Purchase Contract shall be construed in accordance with the laws of the State of California.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC.,
as Underwriter

By: _____
Managing Director

ACCEPTED:

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By:  _____
Interim Treasurer

EXHIBIT A

MATURITY SCHEDULE

\$43,270,000 Series 2013 Water Bonds

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP Number</u>
2014	\$3,970,000	2.00%	0.380%	101.691	607769EW2
2015	4,110,000	5.00	0.600	108.939	607769EX0
2016	4,320,000	5.00	0.990	112.007	607769EY8
2017	4,535,000	5.00	1.380	114.200	607769EZ5
2018	4,760,000	5.00	1.690	115.948	607769FA9
2019 ⁽¹⁾	5,005,000	5.00	2.080	116.510	607769FB7
2020 ⁽¹⁾	5,260,000	5.00	2.490	116.130	607769FC5
2021 ⁽¹⁾	5,515,000	5.00	2.860	115.284	607769FD3
2022 ⁽¹⁾	5,795,000	5.00	3.160	114.379	607769FE1

⁽¹⁾ Insured maturity.

EXHIBIT B

LETTER OF REPRESENTATIONS

July 31, 2013

Modesto Irrigation District Financing Authority
Modesto, California

Citigroup Global Markets Inc.
Los Angeles, California

Re: Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds,
Series 2013G

Ladies and Gentlemen:

Pursuant to the Purchase Contract to which this Letter of Representations is attached, dated the date hereof (the "Purchase Contract"), between Citigroup Global Markets Inc. (the "Underwriter"), and the Modesto Irrigation District Financing Authority (the "Authority"), the Authority proposes to sell \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, (the "Series 2013 Water Bonds"). Capitalized terms used herein and not defined herein shall have the respective meanings set forth in the Purchase Contract.

The offering of the Series 2013 Water Bonds is described in an official statement dated the date hereof (the "Official Statement"). The Series 2013 Water Bonds shall be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, consisting of Article 4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California (commencing with Section 6584) (the "Act"), a resolution adopted by the Board of Directors of the Authority on July 9, 2013 (the "Resolution"), authorizing the Series 2013 Water Bonds, and a Trust Agreement, executed and entered into as of August 1, 2013 (the "Trust Agreement"), among the Authority, the Modesto Irrigation District (the "District") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Series 2013 Water Bonds shall be payable solely from Revenues of the Authority, consisting principally of installment payments (the "Series 2013 Installment Payments") received by the Authority from the District pursuant to the Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995 and as further amended and restated as of February 1, 1998 and as further amended and restated as of August 1, 2013 (the "Installment Purchase Contract"), by and between the District and the Authority. Pursuant to the Trust Agreement the Authority will assign, without recourse, any and all of its rights to receive the Series 2013 Installment Payments under the Installment Purchase Contract to the Trustee.

The District entered into a Treatment and Delivery Agreement in 1992 with the City of Modesto (the "City"), as superseded by an Amended and Restated Treatment and Delivery Agreement entered into in 2005 between the District and the City, as amended by certain

Financing Amendments to such Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as so superseded and amended, the "Treatment and Delivery Agreement"). Pursuant to the Treatment and Delivery Agreement, the District agreed to construct and operate a surface water treatment plant and distribution facilities, including an expansion thereof (collectively, the "Domestic Water Project"), and to supply treated water from the Domestic Water Project to the City, in consideration for which the City has agreed to pay, subject to the terms of the Treatment and Delivery Agreement, the costs of the operation of the Domestic Water Project as well as Debt Service (as defined in the Treatment and Delivery Agreement) relating to the Domestic Water Project (including the Series 2013 Installment Payments). The Series 2013 Installment Payments to be paid by the District under the Installment Purchase Contract are payable from and secured by a pledge of and first lien on all Treatment and Delivery Revenues (as defined in the Installment Purchase Contract) received by the District from the City under the Treatment and Delivery Agreement.

The Series 2013 Water Bonds are being issued to provide funds to (i) refinance a portion of the costs of the original Domestic Water Project of the District by refunding and retiring all of the Authority's outstanding Domestic Water Project Refunding Revenue Bonds, Series 1998D (the "Series 1998D Water Bonds"), (ii) purchase an insurance policy for the funding of a reserve fund for the Series 2013 Water Bonds and (iii) pay costs of issuance of the Series 2013 Water Bonds, as more fully described in the Official Statement (as hereinafter defined).

In connection with the issuance of the Series 2013 Water Bonds, the City will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain events if material. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

The scheduled payment of principal of and interest on the Series 2013 Water Bonds maturing on September 1 of the years 2019 through 2022, inclusive (the "Insured Series 2013 Water Bonds"), when due will be guaranteed under a municipal bond insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Insured Series 2013 Water Bonds by Assured Guaranty Municipal Corp. ("Assured"). Assured will also provide a municipal bond debt service reserve insurance policy (the "Reserve Policy") for the purpose of funding the reserve fund for the Series 2013 Water Bonds.

To induce you to enter into the Purchase Contract and to make the sale and purchase and reoffering of the Series 2013 Water Bonds therein contemplated, the City hereby represents, warrants and agrees with each of you as follows:

(1) The City is, and will be on the Closing Date, a charter city and municipal corporation duly organized and validly existing under the laws of the State of California with the full power and authority to execute and deliver the Official Statement and to enter into the Continuing Disclosure Agreement.

(2) By all necessary official action of the City prior to or concurrently with the acceptance hereof, the City has duly approved, ratified and confirmed the distribution of the Preliminary Official Statement and the Official Statement, and has duly authorized and approved

the execution and delivery of the Official Statement, the Continuing Disclosure Agreement and the Purchase Contract, and the performance by the City of the obligations on its part contained in the Treatment and Delivery Agreement, the Continuing Disclosure Agreement and this Purchase Contract and the consummation by it of all other transactions contemplated by the Official Statement, the Continuing Disclosure Agreement, the Treatment and Delivery Agreement and this Purchase Contract.

(3) The City is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or to which the City or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default in any material respect under any such instrument; and the issuance of the Series 2013 Water Bonds, the execution and delivery of the Official Statement, the Continuing Disclosure Agreement and this Purchase Contract, and compliance with the provisions on the City's part contained herein, therein and in the Treatment and Delivery Agreement, will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Treatment and Delivery Agreement.

(4) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best knowledge of the City after reasonable investigation, threatened against the City in any material respect affecting the existence of the City or the titles of its officers to their respective offices or contesting or affecting, as to the City, the validity or enforceability of the Treatment and Delivery Agreement, the Continuing Disclosure Agreement or this Purchase Contract or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Treatment and Delivery Agreement, the Continuing Disclosure Agreement or this Purchase Contract.

(5) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations in connection with the execution of the Treatment and Delivery Agreement and the Continuing Disclosure Agreement have been duly obtained; and, except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission

having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations under the Treatment and Delivery Agreement, the Continuing Disclosure Agreement or this Purchase Contract have been duly obtained.

(6) As of the date thereof, the information in the Preliminary Official Statement relating to the City and the City's Water Utility System did not, except as revised by the Official Statement, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

(7) As of the date thereof and at all times subsequent thereto to and including the date which is 25 days following the End of the Underwriting Period (as such term is hereinafter defined) for the Series 2013 Water Bonds, the information in the Official Statement relating to the City and the City's Water Utility System did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(8) If between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Series 2013 Water Bonds, an event occurs which might or would cause the information contained in the Official Statement relating to the City and the City's Water Utility System, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the City will notify the Authority, and, if in the opinion of the Authority, the Underwriter or their respective counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will forthwith prepare and furnish to the Authority and the Underwriter (at the expense of the Authority) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Series 2013 Water Bonds, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request.

(9) If the information contained in the Official Statement relating to the City and the City's Water Utility System is amended or supplemented pursuant to paragraph (8) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Series 2013 Water Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(10) As used herein and for the purposes of the foregoing, the term “End of the Underwriting Period” for the Series 2013 Water Bonds shall mean the earlier of (i) the Closing Date unless the Authority shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date, or (ii) the date on which the End of the Underwriting Period for the Series 2013 Water Bonds has occurred under Rule 15c2-12; provided, however, that the Authority may treat as the End of the Underwriting Period for the Series 2013 Water Bonds the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period.

(11) Between the date of this Purchase Contract and the Closing Date, the City will not, without the prior written consent of the Authority and the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, nor will there be any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the City, in either case other than in the ordinary course of its business or as discussed in the Official Statement.

(12) The City has not failed in the previous five years to comply with any previous continuing disclosure undertaking entered into by the City under the Rule, except (i) although the City’s comprehensive annual financial report for fiscal year 2009-10 was timely filed, it was not associated with the applicable CUSIP Numbers for the Domestic Water Bonds until a few days after the required filing date and (ii) the City’s budget for each of fiscal years 2009-10, 2010-11 and 2011-12 were not timely filed and associated with the applicable CUSIP Numbers for the Domestic Water Bonds until July 12, 2013. As of the date hereof, the City is in compliance in all material respects with its previous continuing disclosure undertakings. The City believes it has established processes to ensure that in the future it will make its continuing disclosure filings as required.

(13) Any certificate signed by any authorized official of the City, and delivered to the Underwriter in connection with the issuance of the Series 2013 Water Bonds, shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

The representations, warranties, agreements and indemnities herein shall survive the Closing under the Purchase Contract and any investigation made by or on behalf of any of you or any person who controls any of you of any matters described in or related to the transactions contemplated hereby and by the Purchase Contract, the Official Statement, the Treatment and Delivery Agreement, the Continuing Disclosure Agreement, the Installment Purchase Contract and the Trust Agreement.

This Letter of Representations shall be binding upon and inure solely to the benefit of each of you and the City and, to the extent set forth herein, persons controlling any of you, and their respective officers, employees, agents and personal representatives, successors and assigns, and no other person or firm shall acquire or have any right under or by virtue of this Letter of Representations. No recourse under or upon any obligation, covenant or agreement contained in this Letter of Representations or otherwise relating to the transactions contemplated hereby shall, under any circumstances, exist or be had against any officer, agent, employee or director of the City as individuals.

The City acknowledges and agrees that (i) the purchase and sale of the Series 2013 Water Bonds by the Authority to the Underwriter pursuant to the Purchase Contract is an arm's-length commercial transaction between the Authority and the Underwriter, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal; (iii) the Underwriter is not the agent, advisor or fiduciary of the City, (iv) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the City, the District or the Authority with respect to the offering of the Series 2013 Water Bonds or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter, has provided other services or is currently providing other services to the Authority, the District or the City on other matters) and the Underwriter has no obligation to the Authority, the District or the City with respect to the offering contemplated by the Purchase Contract except the obligations expressly set forth in the Purchase Contract, and (iv) the City has consulted with its own legal, financial and other advisors to the extent it has deemed appropriate in connection with the offering of the Series 2013 Water Bonds.

This Letter of Representations may be executed by facsimile transmission and in any number of counterparts and all such counterparts shall together constitute one and the same instrument.

[Remainder of page intentionally left blank.]

If the foregoing is in accordance with your understanding of the agreement between us, kindly sign and return the duplicates of this Letter of Representations.

CITY OF MODESTO

By: _____
Gloriette Genereux
Director of Finance

Accepted and Agreed to:

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By: _____
Don Dermond
Interim Treasurer

CITIGROUP GLOBAL MARKETS INC.

By: _____
Steve Dworkin
Managing Director

EXHIBIT C

FORM OF OPINION OF
ORRICK, HERRINGTON & SUTCLIFFE LLP, BOND COUNSEL

Citigroup Global Markets Inc.
Los Angeles, California 90071

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds,
Series 2013G

Ladies and Gentlemen:

This letter is addressed to you as the Underwriter (the "Underwriter") pursuant to Section 4(f)(6) of the Purchase Contract, dated July 31, 2013 (the "Purchase Contract"), between you and the Modesto Irrigation District Financing Authority (the "Authority") providing for the purchase of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the "Series 2013 Water Bonds"). The Series 2013 Water Bonds are being issued pursuant to a Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), among Wells Fargo Bank, National Association, as trustee, the Modesto Irrigation District (the "District") and the Authority. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement or, if not defined in the Trust Agreement, in the Purchase Contract.

We have delivered our final legal opinion (the "Bond Opinion") as bond counsel to the Authority concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the Authority. You may rely on such opinion as though the same were addressed to you.

In connection with our role as bond counsel to the Authority, we have reviewed the Purchase Contract, the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement, the Tax Certificate, opinions of counsel to the Authority, the District and the Trustee, certificates of the Authority, the District and the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to provide the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions

are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement, the Tax Certificate and the Purchase Contract and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers authorities in the State of California. We express no opinion with respect to any indemnification, contribution, arbitration, judicial reference, penalty (including any remedy deemed to constitute a penalty), liquidated damages, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinions with respect to the state or quality of title to or interest in any real or personal property described in or as subject to the lien of the Trust Agreement or the Installment Purchase Contract or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated July 31, 2013 (the "Official Statement") or other offering material relating to the Bonds and express no opinion relating thereto except as expressly set forth in numbered paragraph 3 below.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions or conclusions:

1. The Series 2013 Water Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended. No opinion is expressed with respect to the Bond Insurance Policy or the Reserve Policy.

2. The Official Statement and the execution and delivery thereof have been duly approved by the Authority.

3. The Purchase Contract has been duly authorized, executed and delivered by the Authority and (assuming due authorization, execution and delivery by and validity against the Underwriter) is a valid and binding agreement of the Authority.

4. The statements contained in the Official Statement under the captions "THE SERIES 2013 WATER BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS (excluding information under the headings "The Treatment and Delivery Agreement – *Additional Encumbrances of City Gross Water Revenues*"), "TAX MATTERS," APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" and APPENDIX D - "PROPOSED FORM OF OPINION OF BOND COUNSEL," excluding any material that may be treated as included under

such caption by cross-reference, insofar as such statements expressly summarize certain provisions of the Trust Agreement, the Treatment and Delivery Agreement and the Installment Purchase Contract and the form and content of our Bond Counsel Opinion are accurate in all material respects.

This letter is furnished by us as bond counsel to the Authority. No attorney-client relationship has existed or exists between our firm and you in connection with the Series 2013 Water Bonds or by virtue of this letter, and we disclaim any obligation to update this letter. This letter is delivered to you as Underwriter of the Series 2013 Water Bonds and is solely for your benefit as such Underwriter and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by the owners of the Series 2013 Water Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

EXHIBIT D

FORM OF OPINION OF AUTHORITY COUNSEL

Citigroup Global Markets Inc.
Los Angeles, California

Assured Guaranty Municipal Corp., as bond insurer
New York, New York

Ladies and Gentlemen:

As General Counsel to the Modesto Irrigation District (the "District"), I have acted as counsel to the Modesto Irrigation District Financing Authority (the "Authority"), a joint exercise of powers authority organized and existing pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California, as amended. This opinion is rendered in connection with the issuance of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the "Series 2013 Water Bonds").

In rendering this opinion, I have examined the following documents: (i) the Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement") and entered into by and among the Authority, the District and Wells Fargo Bank, National Association, as Trustee (the "Trustee"); (ii) the Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995 and as further amended and restated as of February 1, 1998 and as further amended and restated as of August 1, 2013 (the "Installment Purchase Contract"), by and between the District and the Authority; (iii) the Purchase Contract dated July 31, 2013 (the "Purchase Contract") and entered into by the Authority and Citigroup Global Markets Inc.; and (iv) the Official Statement dated July 31, 2013 (the "Official Statement"), relating to the Series 2013 Water Bonds. In addition, I have examined such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein.

Based on the foregoing, I am of the opinion that:

(1) The Authority is a joint exercise of powers authority duly organized under the laws of the State of California.

(2) The resolution or resolutions of the Authority approving and authorizing the execution and delivery of the Installment Purchase Contract, the Purchase Contract and the Official Statement by the Authority (the "Resolutions") were duly adopted at meetings of the Board of Directors of the Authority, which were called and held pursuant

to law and with all public notice required by law and at which a quorum was present and acting throughout.

(3) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending (with service of process having been accomplished) or, to the current actual knowledge of such counsel after reasonable investigation, threatened against or affecting the Authority, in any way contesting or affecting the validity of the Series 2013 Water Bonds, the Trust Agreement, the Installment Purchase Contract or the Purchase Contract.

(4) The execution and delivery of the Trust Agreement, the Installment Purchase Contract, the Purchase Contract and the Official Statement by the Authority, the adoption of the Resolutions, and compliance by the Authority with the provisions of the foregoing, as appropriate, under the circumstances contemplated thereby, does not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party (and of which I have current actual knowledge after reasonable investigation) or by which it is bound (and of which I have current actual knowledge after reasonable investigation) or any existing law, regulation, court order or consent decree to which the Authority is subject.

(5) The Official Statement has been duly authorized, executed and delivered, and the Trust Agreement, the Installment Purchase Contract and the Purchase Contract have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, the Trust Agreement, the Installment Purchase Contract and the Purchase Contract constitute legal, valid and binding agreements of the Authority, enforceable in accordance with their respective terms, subject in each case to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought. The enforceability of the foregoing agreements may be subject or limited by the unenforceability under certain circumstances of provisions imposing penalties, forfeitures or late payment charges upon delinquency in payment or the occurrence of a default, and no opinion is expressed as to any indemnification provisions contained therein.

(6) Except as described in the Official Statement, no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Trust Agreement, the Installment Purchase Contract, the Official Statement or the Purchase Contract or for the adoption of the Resolutions which has not been obtained, provided that no opinion is expressed with respect to qualification under Blue Sky or other state securities laws.

(7) Without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement and based upon the information made available to me in the course of my participation in the

preparation of the Official Statement as counsel for the Authority, including certificates of officials of the City of Modesto (the "City") and upon the opinion of the City Attorney of the City relating to the information in the Official Statement relating to the City and the City's Water Utility System, nothing has come to my attention which would cause me to believe that the Official Statement (excluding therefrom the financial statements and the statistical data included in the Official Statement, as to which no opinion is expressed), as of the date thereof and the Closing Date, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(8) The assignment of rights by the Authority to the Trustee pursuant to the Trust Agreement is effective to grant to the Trustee all of the rights granted thereby (including the right to receive payments paid by District) free and clear of any lien or security interest or other claim of any third party or entity claiming by or through the Authority other than as set forth in the Official Statement.

Respectfully submitted,

General Counsel

EXHIBIT E

FORM OF OPINION OF DISTRICT COUNSEL

Citigroup Global Markets Inc.
Los Angeles, California

Assured Guaranty Municipal Corp., as bond insurer
New York, New York

Ladies and Gentlemen:

I am General Counsel to the Modesto Irrigation District (the "District"), an irrigation district organized and existing pursuant to Division 11 of the Water Code of the State of California, as amended. This opinion is rendered in connection with the issuance of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the "Series 2013 Water Bonds").

In rendering this opinion, I have examined the following documents: (i) the Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), by and among the Modesto Irrigation District Financing Authority (the "Authority"), the District and Wells Fargo Bank, National Association, as trustee (the "Trustee"); (ii) the Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995 and as further amended and restated as of February 1, 1998 and as further amended and restated as of August 1, 2013 (the "Installment Purchase Contract"), by and between the District and the Authority; (iii) the Purchase Contract, dated July 31, 2013 (the "Purchase Contract") and entered into by and between the Authority and Citigroup Global Markets Inc.; (iv) the Official Statement dated July 31, 2013 (the "Official Statement"), relating to the Series 2013 Water Bonds; and (v) the Amended and Restated Treatment and Delivery Agreement entered into in 2005 with the City of Modesto (the "City"), as further amended by those certain Financing Amendments to such Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as so amended, the "Treatment and Delivery Agreement"). In addition, I have examined such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein.

Based on the foregoing, I am of the opinion that:

1. The District is, and was at all relevant times, an irrigation district duly organized and validly existing under the laws of the State of California.

2. The resolution or resolutions of the District approving and authorizing the execution and delivery of the Official Statement, the Trust Agreement and the Installment Purchase Contract by the District (the "District Resolutions") were duly adopted at meetings of the Board of Directors of the District, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

3. The District has complied with all the material terms of the Installment Purchase Contract and the Treatment and Delivery Agreement to be complied with by the District prior to or concurrently with the Closing and such documents are in full force and effect as to the District.

4. Without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement and based upon the information made available to me in the course of my participation in the preparation of the Official Statement as counsel for the District, including certificates of officials of the City and upon the opinion of the City Attorney of the City relating to the information in the Official Statement relating to the City and the City's Water Utility System, nothing has come to my attention which would cause me to believe that the information contained in the Official Statement relating to the District (excluding therefrom the financial statements and the statistical data included in the Official Statement, as to which no opinion is expressed), as of the date thereof and the Closing Date, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

5. There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending (with service of process having been accomplished) or, to the current actual knowledge of such counsel after reasonable investigation, threatened against or affecting the District, in any way contesting or affecting the validity of the Installment Purchase Contract.

6. Under the laws of the State of California, the District has the authority to fix and collect charges for water service pursuant to the Treatment and Delivery Agreement and is not presently subject to the regulatory jurisdiction of any state, regional or local governmental regulatory authority in connection with fixing and collecting such charges, other than those approvals that have been obtained or will be given by the Board of Directors of the District and, to the current actual knowledge of such counsel after reasonable investigation, no legislation is proposed or pending to restrict or limit such rates and charges except as set forth in the Official Statement.

Respectfully submitted,

EXHIBIT F

FORM OF TRUSTEE'S COUNSEL OPINION

Citigroup Global Markets Inc.
Los Angeles, California

Re: Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds,
Series 2013G

Ladies and Gentlemen:

We have acted as counsel to Wells Fargo Bank, National Association ("Wells Fargo"), as trustee (the "Trustee"), under the Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), among the Modesto Irrigation District Financing Authority (the "Authority"), the Modesto Irrigation District (the "District") and the Trustee in connection with the issuance of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the "Series 2013 Water Bonds"). We have also acted as counsel to Wells Fargo Bank, National Association in its capacity as dissemination agent (the "Dissemination Agent") under the Continuing Disclosure Agreement dated August 14, 2013, by between the Trustee and the City of Modesto, California (the "City"). This opinion is rendered pursuant to the Purchase Contract, dated July 31, 2013 (the "Purchase Contract"), between the Authority and Citigroup Global Markets Inc., as Underwriter.

In connection therewith, we have examined and reviewed such documents and certificates of public officials, officers of Wells Fargo and others as we have deemed necessary for the purposes of this opinion. In all such examinations, we have assumed the genuineness of all signatures (other than those of Wells Fargo), the authenticity of all documents submitted to us as originals, the conformity to original and certified documents of all copies submitted to us as conformed or photostatic copies, and the authenticity of the originals of all such latter documents. As to various questions of fact material to this opinion, we have relied, to the extent that we deemed such reliance proper, upon such certificates of officers of Wells Fargo. We have examined executed counterparts of the Trust Agreement and the Continuing Disclosure Agreement and have assumed the power, municipal or corporate, as the case may be, and the legal authority to execute and deliver the same of the other parties thereto and the due authorization, execution and delivery thereof by the other parties thereto.

Based upon the foregoing, we are of the opinion under the laws of the State of California:

1. Wells Fargo is a national banking association duly organized and validly existing under and by virtue of the laws of the United States of America, having full power and being qualified to enter into and perform its duties as Trustee under the Trust Agreement and as Dissemination Agent under the Continuing Disclosure Agreement.

2. Wells Fargo has taken all corporate action necessary to assume the duties and obligations of Trustee under the Trust Agreement, and of Dissemination Agent under the Continuing Disclosure Agreement, and to authorize in its respective capacities the execution and delivery of the Trust Agreement and the Continuing Disclosure Agreement and the acceptance of the duties of Wells Fargo as Trustee and Dissemination Agent, respectively, thereunder does not and will not contravene any law of governmental regulation or order presently binding on Wells Fargo or its Articles of Association or By-Laws or, to my knowledge, contravene any provision or constitute a default under any indenture, contract or other instrument to which Wells Fargo is a party or by which Wells Fargo is or may be bound.

3. Wells Fargo has duly executed and delivered the Trust Agreement and the Continuing Disclosure Agreement, and, when executed by the other parties thereto, the Trust Agreement and the Continuing Disclosure Agreement will constitute the legal, valid and binding obligations of Wells Fargo, enforceable in accordance with its terms, except to the extent the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

4. All approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the performance by Wells Fargo of any of its duties and obligations under the Trust Agreement and the Continuing Disclosure Agreement (insofar as it is the obligation to obtain any such approval, consent or order) have been obtained and are in full force and effect.

Respectfully submitted

LETTER OF REPRESENTATIONS

July 31, 2013

Modesto Irrigation District Financing Authority
Modesto, California

Citigroup Global Markets Inc.
Los Angeles, California

Re: Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds,
Series 2013G

Ladies and Gentlemen:

Pursuant to the Purchase Contract to which this Letter of Representations is attached, dated the date hereof (the "Purchase Contract"), between Citigroup Global Markets Inc. (the "Underwriter"), and the Modesto Irrigation District Financing Authority (the "Authority"), the Authority proposes to sell \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, (the "Series 2013 Water Bonds"). Capitalized terms used herein and not defined herein shall have the respective meanings set forth in the Purchase Contract.

The offering of the Series 2013 Water Bonds is described in an official statement dated the date hereof (the "Official Statement"). The Series 2013 Water Bonds shall be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, consisting of Article 4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California (commencing with Section 6584) (the "Act"), a resolution adopted by the Board of Directors of the Authority on July 9, 2013 (the "Resolution"), authorizing the Series 2013 Water Bonds, and a Trust Agreement, executed and entered into as of August 1, 2013 (the "Trust Agreement"), among the Authority, the Modesto Irrigation District (the "District") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Series 2013 Water Bonds shall be payable solely from Revenues of the Authority, consisting principally of installment payments (the "Series 2013 Installment Payments") received by the Authority from the District pursuant to the Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995 and as further amended and restated as of February 1, 1998 and as further amended and restated as of August 1, 2013 (the "Installment Purchase Contract"), by and between the District and the Authority. Pursuant to the Trust Agreement the Authority will assign, without recourse, any and all of its rights to receive the Series 2013 Installment Payments under the Installment Purchase Contract to the Trustee.

The District entered into a Treatment and Delivery Agreement in 1992 with the City of Modesto (the "City"), as superseded by an Amended and Restated Treatment and Delivery Agreement entered into in 2005 between the District and the City, as amended by certain Financing Amendments to such Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as so superseded and amended, the "Treatment and Delivery

Agreement”). Pursuant to the Treatment and Delivery Agreement, the District agreed to construct and operate a surface water treatment plant and distribution facilities, including an expansion thereof (collectively, the “Domestic Water Project”), and to supply treated water from the Domestic Water Project to the City, in consideration for which the City has agreed to pay, subject to the terms of the Treatment and Delivery Agreement, the costs of the operation of the Domestic Water Project as well as Debt Service (as defined in the Treatment and Delivery Agreement) relating to the Domestic Water Project (including the Series 2013 Installment Payments). The Series 2013 Installment Payments to be paid by the District under the Installment Purchase Contract are payable from and secured by a pledge of and first lien on all Treatment and Delivery Revenues (as defined in the Installment Purchase Contract) received by the District from the City under the Treatment and Delivery Agreement.

The Series 2013 Water Bonds are being issued to provide funds to (i) refinance a portion of the costs of the original Domestic Water Project of the District by refunding and retiring all of the Authority’s outstanding Domestic Water Project Refunding Revenue Bonds, Series 1998D (the “Series 1998D Water Bonds”), (ii) purchase an insurance policy for the funding of a reserve fund for the Series 2013 Water Bonds and (iii) pay costs of issuance of the Series 2013 Water Bonds, as more fully described in the Official Statement (as hereinafter defined).

In connection with the issuance of the Series 2013 Water Bonds, the City will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain events if material. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

The scheduled payment of principal of and interest on the Series 2013 Water Bonds maturing on September 1 of the years 2019 through 2022, inclusive (the “Insured Series 2013 Water Bonds”), when due will be guaranteed under a municipal bond insurance policy (the “Bond Insurance Policy”) to be issued concurrently with the delivery of the Insured Series 2013 Water Bonds by Assured Guaranty Municipal Corp. (“Assured”). Assured will also provide a municipal bond debt service reserve insurance policy (the “Reserve Policy”) for the purpose of funding the reserve fund for the Series 2013 Water Bonds.

To induce you to enter into the Purchase Contract and to make the sale and purchase and reoffering of the Series 2013 Water Bonds therein contemplated, the City hereby represents, warrants and agrees with each of you as follows:

(1) The City is, and will be on the Closing Date, a charter city and municipal corporation duly organized and validly existing under the laws of the State of California with the full power and authority to execute and deliver the Official Statement and to enter into the Continuing Disclosure Agreement.

(2) By all necessary official action of the City prior to or concurrently with the acceptance hereof, the City has duly approved, ratified and confirmed the distribution of the Preliminary Official Statement and the Official Statement, and has duly authorized and approved the execution and delivery of the Official Statement, the Continuing Disclosure Agreement and the Purchase Contract, and the performance by the City of the obligations on its part contained in

the Treatment and Delivery Agreement, the Continuing Disclosure Agreement and this Purchase Contract and the consummation by it of all other transactions contemplated by the Official Statement, the Continuing Disclosure Agreement, the Treatment and Delivery Agreement and this Purchase Contract.

(3) The City is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or to which the City or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default in any material respect under any such instrument; and the issuance of the Series 2013 Water Bonds, the execution and delivery of the Official Statement, the Continuing Disclosure Agreement and this Purchase Contract, and compliance with the provisions on the City's part contained herein, therein and in the Treatment and Delivery Agreement, will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided in the Treatment and Delivery Agreement.

(4) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or, to the best knowledge of the City after reasonable investigation, threatened against the City in any material respect affecting the existence of the City or the titles of its officers to their respective offices or contesting or affecting, as to the City, the validity or enforceability of the Treatment and Delivery Agreement, the Continuing Disclosure Agreement or this Purchase Contract or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Treatment and Delivery Agreement, the Continuing Disclosure Agreement or this Purchase Contract.

(5) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations in connection with the execution of the Treatment and Delivery Agreement and the Continuing Disclosure Agreement have been duly obtained; and, except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the

due performance by, the City of its obligations under the Treatment and Delivery Agreement, the Continuing Disclosure Agreement or this Purchase Contract have been duly obtained.

(6) As of the date thereof, the information in the Preliminary Official Statement relating to the City and the City's Water Utility System did not, except as revised by the Official Statement, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

(7) As of the date thereof and at all times subsequent thereto to and including the date which is 25 days following the End of the Underwriting Period (as such term is hereinafter defined) for the Series 2013 Water Bonds, the information in the Official Statement relating to the City and the City's Water Utility System did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(8) If between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Series 2013 Water Bonds, an event occurs which might or would cause the information contained in the Official Statement relating to the City and the City's Water Utility System, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the City will notify the Authority, and, if in the opinion of the Authority, the Underwriter or their respective counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will forthwith prepare and furnish to the Authority and the Underwriter (at the expense of the Authority) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Series 2013 Water Bonds, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request.

(9) If the information contained in the Official Statement relating to the City and the City's Water Utility System is amended or supplemented pursuant to paragraph (8) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Series 2013 Water Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

(10) As used herein and for the purposes of the foregoing, the term “End of the Underwriting Period” for the Series 2013 Water Bonds shall mean the earlier of (i) the Closing Date unless the Authority shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date, or (ii) the date on which the End of the Underwriting Period for the Series 2013 Water Bonds has occurred under Rule 15c2-12; provided, however, that the Authority may treat as the End of the Underwriting Period for the Series 2013 Water Bonds the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period.

(11) Between the date of this Purchase Contract and the Closing Date, the City will not, without the prior written consent of the Authority and the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, nor will there be any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the City, in either case other than in the ordinary course of its business or as discussed in the Official Statement.

(12) The City has not failed in the previous five years to comply with any previous continuing disclosure undertaking entered into by the City under the Rule, except (i) although the City’s comprehensive annual financial report for fiscal year 2009-10 was timely filed, it was not associated with the applicable CUSIP Numbers for the Domestic Water Bonds until a few days after the required filing date and (ii) the City’s budget for each of fiscal years 2009-10, 2010-11 and 2011-12 were not timely filed and associated with the applicable CUSIP Numbers for the Domestic Water Bonds until July 12, 2013. As of the date hereof, the City is in compliance in all material respects with its previous continuing disclosure undertakings. The City believes it has established processes to ensure that in the future it will make its continuing disclosure filings as required.

(13) Any certificate signed by any authorized official of the City, and delivered to the Underwriter in connection with the issuance of the Series 2013 Water Bonds, shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

The representations, warranties, agreements and indemnities herein shall survive the Closing under the Purchase Contract and any investigation made by or on behalf of any of you or any person who controls any of you of any matters described in or related to the transactions contemplated hereby and by the Purchase Contract, the Official Statement, the Treatment and Delivery Agreement, the Continuing Disclosure Agreement, the Installment Purchase Contract and the Trust Agreement.

This Letter of Representations shall be binding upon and inure solely to the benefit of each of you and the City and, to the extent set forth herein, persons controlling any of you, and their respective officers, employees, agents and personal representatives, successors and assigns, and no other person or firm shall acquire or have any right under or by virtue of this Letter of Representations. No recourse under or upon any obligation, covenant or agreement contained in this Letter of Representations or otherwise relating to the transactions contemplated hereby shall, under any circumstances, exist or be had against any officer, agent, employee or director of the City as individuals.


The City acknowledges and agrees that (i) the purchase and sale of the Series 2013 Water Bonds by the Authority to the Underwriter pursuant to the Purchase Contract is an arm's-length commercial transaction between the Authority and the Underwriter, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal; (iii) the Underwriter is not the agent, advisor or fiduciary of the City, (iv) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the City, the District or the Authority with respect to the offering of the Series 2013 Water Bonds or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter, has provided other services or is currently providing other services to the Authority, the District or the City on other matters) and the Underwriter has no obligation to the Authority, the District or the City with respect to the offering contemplated by the Purchase Contract except the obligations expressly set forth in the Purchase Contract, and (iv) the City has consulted with its own legal, financial and other advisors to the extent it has deemed appropriate in connection with the offering of the Series 2013 Water Bonds.

This Letter of Representations may be executed by facsimile transmission and in any number of counterparts and all such counterparts shall together constitute one and the same instrument.

[Remainder of page intentionally left blank.]

If the foregoing is in accordance with your understanding of the agreement between us, kindly sign and return the duplicates of this Letter of Representations.

CITY OF MODESTO

By: 
Gloriette Genereux
Director of Finance

Accepted and Agreed to:

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By: _____
Don Dermond
Interim Treasurer

CITIGROUP GLOBAL MARKETS INC.

By: _____
Steve Dworkin
Managing Director


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FINANCING AUTHORITY**

By: _____

**Don Dermond
Interim Treasurer**

CITIGROUP GLOBAL MARKETS INC.

By: _____

**Steve Dworkin
Managing Director**

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: (See “RATINGS” herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2013 Water Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2013 Water Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2013 Water Bonds. See “TAX MATTERS” herein.

\$43,940,000*

**MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS,
SERIES 2013G**

Dated: Date of Issuance**Due: September 1, as set forth on the inside front cover**

The Modesto Irrigation District Financing Authority (the “Authority”) Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,940,000* (the “Series 2013 Water Bonds”) are being issued to provide funds to (i) refinance a portion of the costs of the Domestic Water Project (described below) of the Modesto Irrigation District (the “District”) by refunding all of the Authority’s outstanding Domestic Water Project Refunding Revenue Bonds, Series 1998D, (ii) purchase an insurance policy for the funding of a reserve fund for the Series 2013 Water Bonds and (iii) pay costs of issuance of the Series 2013 Water Bonds, as more fully described herein. See “PLAN OF REFUNDING” and “THE DOMESTIC WATER PROJECT” herein.

The Series 2013 Water Bonds will be dated their date of issuance. Interest on the Series 2013 Water Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2014. The Series 2013 Water Bonds are being delivered in fully registered form and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Series 2013 Water Bonds. Individual purchases will be made in book-entry form only, in denominations of \$5,000 principal amount or any integral multiple thereof. Payments of principal of, premium, if any, and interest on, the Series 2013 Water Bonds are payable by Wells Fargo Bank, National Association, as trustee (the “Trustee”) to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Series 2013 Water Bonds, as described herein.

The Series 2013 Water Bonds are not subject to optional redemption prior to maturity. The Series 2013 Water Bonds are subject to extraordinary redemption prior to maturity under certain circumstances as described herein.

The Series 2013 Water Bonds are being issued pursuant to a Trust Agreement, dated as of August 1, 2013 (the “Trust Agreement”), among the Authority, the District and the Trustee. The Series 2013 Water Bonds are special, limited obligations of the Authority payable from Revenues (as herein defined) of the Authority, consisting principally of installment payments (the “Series 2013 Installment Payments”) received by the Trustee, as assignee of the Authority, from the District pursuant to an Installment Purchase Contract, originally dated as of November 1, 1992, and as amended and restated through August 1, 2013 (the “Installment Purchase Contract”), by and between the Authority and the District. The District entered into a Treatment and Delivery Agreement in 1992, as superseded by an Amended and Restated Treatment and Delivery Agreement entered into in 2005, and as further amended (the “Treatment and Delivery Agreement”) with the City of Modesto, a California charter city and municipal corporation (the “City”), pursuant to which the District agreed to construct and operate a surface water treatment plant and distribution facilities, including an ongoing expansion thereof (collectively, the “Domestic Water Project”), and to supply treated water from the Domestic Water Project to the City, in consideration for which the City has agreed to pay, subject to the terms of the Treatment and Delivery Agreement, the costs of the operation of the Domestic Water Project as well as debt service relating to the Domestic Water Project (including the Series 2013 Installment Payments). The Series 2013 Installment Payments to be paid by the District are payable from and are secured by a pledge of and first lien upon certain payments by the City under the Treatment and Delivery Agreement (the “Treatment and Delivery Revenues,” as further described herein). The City’s obligations under the Treatment and Delivery Agreement are payable from and are secured by a lien upon City Gross Water Revenues (as defined herein) from the operation of the City’s Water Utility System, as further described herein.

The scheduled payment of principal of and interest on the Series 2013 Water Bonds maturing on September 1 of the years ____ through ____, inclusive (the “Insured Series 2013 Water Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Series 2013 Water Bonds by ASSURED GUARANTY MUNICIPAL CORP. See “BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS” herein.



THE SERIES 2013 WATER BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR OF ITS MEMBERS (INCLUDING THE DISTRICT) NOR OF ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE REVENUES, IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS. THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY NOR OF ANY MEMBER OF THE AUTHORITY (INCLUDING THE DISTRICT) NOR OF ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

**MATURITY SCHEDULE
(see inside front cover)**

The Series 2013 Water Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority. Certain legal matters will be passed upon for the District and the Authority by the District’s General Counsel. Certain legal matters will be passed upon for the City by the City Attorney and by Sidley Austin LLP, San Francisco, California. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright. First Southwest Company is serving as financial advisor to the District in connection with the issuance of the Series 2013 Water Bonds. It is expected that the Series 2013 Water Bonds will be available for delivery through the DTC book-entry system in New York, New York on or about August 14, 2013.

Citigroup

Dated: July __, 2013

* Preliminary, subject to change.

Maturity Schedule*

\$43,940,000* Series 2013 Water Bonds

<u>Maturity Date (September 1)</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number†</u>
2014	\$4,035,000	%	%	
2015	4,245,000			
2016	4,420,000			
2017	4,590,000			
2018	4,820,000			
2019	5,065,000			
2020	5,320,000			
2021	5,580,000			
2022	5,865,000			

* Preliminary, subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Authority, the District, the City nor the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.

MODESTO IRRIGATION DISTRICT

1231 Eleventh Street
P.O. Box 4060
Modesto, California 95352
(209) 526 7373

DISTRICT BOARD OF DIRECTORS AND AUTHORITY GOVERNING BOARD

Nick Blom, President

Larry Byrd, Vice President	Paul Warda
Dr. Tom Van Groningen	Glen Wild

DISTRICT STAFF

Roger Van Hoy
Interim General Manager

Ed Oborn
Acting Assistant General Manager, Finance
and Controller

Joy Warren, Esq.
General Counsel

PROFESSIONAL SERVICES

Orrick, Herrington & Sutcliffe LLP
San Francisco, California
Bond Counsel

Wells Fargo Bank, National Association
San Francisco, California
Trustee

First Southwest Company
Santa Monica, California
District Financial Advisor

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No dealer, broker, salesperson or other person has been authorized by the Authority, the District, the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the District, the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2013 Water Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2013 Water Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the Authority, the District, the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the District or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be filed with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) website.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Series 2013 Water Bonds or the advisability of investing in the Series 2013 Water Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE FOR THE INSURED SERIES 23013 WATER BONDS” and APPENDIX H – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY FOR THE INSURED SERIES 2013 WATER BONDS.”

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2013 WATER BONDS THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 WATER BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement and the Appendices hereto constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions “THE DOMESTIC WATER PROJECT” and “THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM” in this Official Statement. Forward-looking statements in this Official Statement are subject to risks and uncertainties, including, but not limited to statements that describe the future expected operational performance of the Domestic Water Project, statements regarding the City’s business strategy and objectives for future operations of the City Water Utility System, possible future connections to and revenues and expenses of the City Water Utility System and the economy of the service area of the City Water Utility System.

The achievement of any results or the realization of other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. None of the Authority, the District or the City plans to issue any updates or revisions to those forward-looking statements.

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OFFICIAL STATEMENT

\$43,940,000*

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY Domestic Water Project Refunding Revenue Bonds, Series 2013G

INTRODUCTION

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the Series 2013 Water Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

Purpose and Background

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the issuance and sale of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,940,000* (the “Series 2013 Water Bonds”). The Series 2013 Water Bonds are being issued pursuant to a Trust Agreement, dated as of August 1, 2013 (the “Trust Agreement”), among the Modesto Irrigation District Financing Authority (the “Authority”), the Modesto Irrigation District (the “District” or “MID”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Series 2013 Water Bonds are being issued pursuant to the Marks Roos Local Bond Pooling Act of 1985, consisting of Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “State”).

In 1992, the District entered into a Treatment and Delivery Agreement with the City of Modesto, a California charter city and municipal corporation (the “City”), as superseded by an Amended and Restated Treatment and Delivery Agreement entered into in 2005, and in connection with the issuance of the Authority’s Domestic Water Project Revenue Bonds, Series 2007F (Index Rate) (the “Series 2007 Water Bonds”), the District and the City entered into certain financing amendments to such Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as so superseded and amended, the “Treatment and Delivery Agreement”). Pursuant to the Treatment and Delivery Agreement, the District agreed to construct and operate a surface water treatment plant and distribution facilities, including the ongoing expansion thereof (collectively, the “Domestic Water Project”) and to supply treated water from the Domestic Water Project to the City, which currently provides municipal water service within the District’s irrigation service boundaries, in consideration for which the City agreed to pay the costs of acquisition, construction and operation of the Domestic Water Project, as well as debt service relating to the Domestic Water Project, including installment payments to be made by the District to the Authority pursuant to an Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995 and further amended and restated as of February 1, 1998, and to be further amended and restated as of August 1, 2013 in connection with the delivery of the Series 2013 Water Bonds (the “Installment Purchase Contract”), by and between the Authority and the District, and an Installment Purchase Contract, dated as of June 1, 2007 (the “2007 Installment Purchase Contract”), by and between the Authority and the District. See “THE DOMESTIC WATER PROJECT.” See also “–Project Financing History” below.

* Preliminary, subject to change.

The proceeds of the sale of the Series 2013 Water Bonds will be used to provide funds to (i) refinance a portion of the costs of the original Domestic Water Project of the District by refunding and retiring all of the Authority's outstanding Domestic Water Project Refunding Revenue Bonds, Series 1998D (the "Series 1998D Water Bonds"), (ii) purchase an insurance policy for the funding of a reserve fund for the Series 2013 Water Bonds and (iii) pay costs of issuance of the Series 2013 Water Bonds, as more fully described herein. See "PLAN OF REFUNDING."

The District

The District is a California irrigation district organized and existing under the provisions of the California Irrigation District Law, Division 11 of the California Water Code (the "Irrigation District Act"). The District has the powers under the Irrigation District Act to, among other things, provide irrigation within its irrigation service area.

The Authority

The Authority was created by a Joint Exercise of Powers Agreement, dated as of July 1, 1989 (the "Joint Exercise of Powers Agreement"), between the District and the City of Redding ("Redding") pursuant to the provisions of the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the "Joint Exercise of Powers Act"). The Authority was created for the purpose of facilitating the financing of public capital improvements and facilities for the District. Under the Joint Exercise of Powers Agreement and the Joint Exercise of Powers Act, Redding has no liability whatsoever for the Series 2013 Water Bonds, the Series 2013 Installment Payments (as defined herein), any public capital improvements or facilities financed or refinanced with the proceeds of the Series 2013 Water Bonds or any other financial obligation in connection therewith. See "THE AUTHORITY."

Project Financing History

In April 1992, the District entered into the Treatment and Delivery Agreement with the City and the Del Este Water Company ("Del Este"), a private water company then operating within the City limits and certain surrounding areas. In July 1995, the City purchased substantially all of the assets and liabilities of Del Este and assumed all interests, rights and obligations of Del Este under the Treatment and Delivery Agreement. See "THE DOMESTIC WATER PROJECT." In order to finance a portion of the City's share of the estimated costs of acquisition and construction of the Domestic Water Project, the Authority issued Domestic Water Project Revenue Bonds, Series 1992A in the aggregate initial principal amount of \$71,885,000 (the "Series 1992A Water Bonds"), Domestic Water Project Revenue Bonds, Series 1992B in the aggregate initial principal amount of \$5,500,000 (the "Series 1992B Water Bonds") and Domestic Water Project Revenue Bonds, Series 1995C in the aggregate initial principal amount of \$24,235,000 (the "Series 1995C Water Bonds"). In 1998, the Authority issued its \$94,715,000 Series 1998D Water Bonds to refund all of the outstanding Series 1992A Water Bonds and Series 1995C Water Bonds. The Series 1992B Water Bonds were retired as of September 1, 2002.

In 2007, the Authority issued \$93,190,000 of its Series 2007 Water Bonds for the purpose of financing a portion of the costs of the acquisition, design, construction, improvement and installation of an expansion of the original Domestic Water Project (the "Phase Two Expansion") and entered into the 2007 Installment Purchase Contract with the District in connection therewith. The Series 2007 Water Bonds are payable from installment payments (the "Series 2007 Installment Payments") received by the Authority from the District pursuant to the 2007 Installment Purchase Contract as payment of the purchase price of the Phase Two Expansion. The Phase Two Expansion has experienced construction issues which have delayed its completion, and multimillion dollar cost overruns have been experienced. See "THE DOMESTIC WATER PROJECT – Domestic Water Project Description."

The Series 2013 Water Bonds are being issued for the purpose of refinancing a portion of the costs of the original Domestic Water Project by refunding all of the outstanding Series 1998D Water Bonds. On the date of delivery of the Series 2013 Water Bonds, all of the Series 1998D Water Bonds will be redeemed and retired and will no longer be outstanding under the trust agreement pursuant to which such Series 1998D Bonds were issued. The installment payments to be made by the District under the Installment Purchase Contract (hereinafter, the “Series 2013 Installment Payments”) are in payment of the purchase price of the original Domestic Water Project. See “PLAN OF REFUNDING.”

Security and Sources of Payment for the Series 2013 Water Bonds

The Series 2013 Water Bonds are special, limited obligations of the Authority payable solely from Revenues (as defined herein) of the Authority, consisting principally of Series 2013 Installment Payments received by the Authority from the District pursuant to the Installment Purchase Contract. The Series 2013 Installment Payments are payable solely from and secured by a pledge of all Treatment and Delivery Revenues (as defined herein) received by the District from the City under the Treatment and Delivery Agreement, unless the District in its discretion elects to appropriate monies to pay the Series 2013 Installment Payments as provided herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS.”

The Series 2013 Installment Payments will be payable by the District on a parity with the outstanding Series 2007 Installment Payments. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement.”

THE SERIES 2013 WATER BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR OF ITS MEMBERS (INCLUDING THE DISTRICT) NOR ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE REVENUES, IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS. NEITHER THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY NOR OF ANY MEMBER OF THE AUTHORITY (INCLUDING THE DISTRICT) NOR ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

City’s Obligations under Treatment and Delivery Agreement

The obligation of the City to make Payments (as hereinafter defined) under the Treatment and Delivery Agreement is a special, limited obligation of the City payable solely from the City’s Gross Water Revenues (as defined herein). Pursuant to the Treatment and Delivery Agreement, the City has covenanted to fix, prescribe and collect water rates and charges which shall be at least sufficient to yield City Gross Water Revenues during each fiscal year of the City in an amount equal to: (i) the payment obligations of the City under the Treatment and Delivery Agreement other than Debt Service (as defined therein), plus (ii) maintenance and operation costs of the City Water Utility System to the extent not included in (i) above, plus (iii) 125% of the Debt Service to be paid during the fiscal year (the “City Rate Covenant”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER

BONDS – Outstanding Domestic Water Project Obligations” and “–The Treatment and Delivery Agreement – *City Rate Covenant.*”

The City has, and may in the future, issue or incur other obligations secured by a pledge of the City Gross Water Revenues on a parity with its obligations under the Treatment and Delivery Agreement; the City has covenanted under the Treatment and Delivery Agreement that it will require a covenant substantially similar to the City Rate Covenant in the Treatment and Delivery Agreement with respect to all obligations issued by the City on a parity with its obligations under the Treatment and Delivery Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Additional Encumbrances of City Gross Water Revenues.*”

Series 2013 Reserve Fund

A Series 2013 Reserve Fund for the Series 2013 Water Bonds will be established with Wells Fargo Bank, National Association, as depository (the “Depository”) in an amount equal to the maximum annual Series 2013 Installment Payments. Moneys in the Series 2013 Reserve Fund will be used solely for the purpose of paying the Series 2013 Installment Payments in the event that amounts paid by the District to the Trustee, as assignee of the Authority, are insufficient therefor. Upon the delivery of the Series 2013 Water Bonds, there will be credited to the Series 2013 Reserve Fund a municipal bond debt service reserve insurance policy issued by Assured Guaranty Municipal Corp. with a policy limit in the amount of the Series 2013 Reserve Fund Requirement (initially, \$_____ upon delivery of the Series 2013 Water Bonds). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – Series 2013 Reserve Fund.”

Bond Insurance for the Insured Series 2013 Water Bonds

The scheduled payment of principal of and interest on the Series 2013 Water Bonds maturing on September 1 of the years ____ through ____, inclusive (the “Insured Series 2013 Water Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Series 2013 Water Bonds by Assured Guaranty Municipal Corp. See “BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS.”

Continuing Disclosure

Pursuant to a Continuing Disclosure Agreement, between the City and the Trustee, the City has agreed to provide to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (“EMMA”) a copy of the annual audited financial statements and certain other operating data relating to the City’s Water Utility System (the “Annual Report”) by not later than the end of the ninth month following the end of each fiscal year (which fiscal year presently ends June 30), commencing with the report for the 2012-13 fiscal year. In addition, the City has agreed to give timely notice to EMMA of the occurrence of certain enumerated events relating to its obligations for the Series 2013 Water Bonds. The specific nature of the information to be contained in the Annual Report and the specified events of which notice is to be given are summarized in APPENDIX G – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made by the City in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

The City has entered into a number of prior continuing disclosure undertakings under the Rule in connection with the issuance of long-term obligations and has provided annual filings of certain financial information and operating data and notice of the occurrence of specified events in connection with those

undertakings. The City has not failed in the previous five years to comply with any previous continuing disclosure undertaking entered into by the City under the Rule, except (i) although the City's comprehensive annual financial report for fiscal year 2009-10 was timely filed, it was not associated with the applicable CUSIP Numbers for the Domestic Water Bonds (as defined in Appendix C hereto) until a few days after the required filing date and (ii) the City's budget for each of fiscal years 2009-10, 2010-11 and 2011-12 were not timely filed and associated with the applicable CUSIP Numbers for the Domestic Water Bonds until July 12, 2013. As of the date hereof, the City is in compliance in all material respects with its previous continuing disclosure undertakings. The City believes it has established processes to ensure that in the future it will make its continuing disclosure filings as required.

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the District or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

This Official Statement includes summaries of the terms of the Series 2013 Water Bonds, the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement and certain other agreements and documents. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

Copies of the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement and the Continuing Disclosure Agreement will be available for inspection at the offices of the District in Modesto, California, and will be available upon request and payment of duplication costs from the Trustee.

Additional Information

Additional information regarding the Official Statement, including information pertaining to the District or the City, may be obtained by contacting the Trustee or by contacting either the District or the City at the addresses below:

Acting Assistant General Manager, Finance
Modesto Irrigation District
1231 Eleventh Street
Modesto, California 95352
(209) 526-7373

Director of Finance
City of Modesto
1010 10th Street
Modesto, California 95353
(209) 577-5371

PLAN OF REFUNDING

Refunding of the Series 1998D Water Bonds. The Authority and the District will apply a portion of the net proceeds of the sale of the Series 2013 Water Bonds, together with other lawfully available funds, to refund and redeem all of the \$52,620,000 outstanding principal amount of the Series 1998D Water Bonds.

The refunding of the outstanding Series 1998D Water Bonds will be effected by applying a portion of the proceeds of the Series 2013 Water Bonds, together with certain other available moneys, on the date of delivery of the Series 2013 Water Bonds (the “Redemption Date”) to redeem all of the outstanding Series 1998D Water Bonds at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the Redemption Date.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2013 Water Bonds are as follows:

<u>Estimated Sources</u>	
Principal Amount of Series 2013 Water Bonds	\$
Original Issue Premium	
Transfer from Refunded Series 1998D Bonds funds and accounts	
Total	\$
<u>Estimated Uses</u>	
Redemption of the Series 1998D Water Bonds	\$
Costs of Issuance ⁽¹⁾	
Total	\$

⁽¹⁾ Includes Underwriter’s discount, the bond insurance and debt service reserve fund policy premiums, fees of Bond Counsel, fees of financial advisors, fees of the Trustee, rating agencies’ fees, printing costs and certain miscellaneous expenses. See “UNDERWRITING.”

THE SERIES 2013 WATER BONDS

The following is a summary of certain provisions of the Series 2013 Water Bonds. Reference is made to the Series 2013 Water Bonds for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

General

The Series 2013 Water Bonds will be issued in the aggregate principal amounts set forth on the inside cover page of this Official Statement. The Series 2013 Water Bonds are being delivered in fully registered form, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2013 Water Bonds. Principal, premium, if any, and interest on the Series 2013 Water Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the Series 2013 Water Bonds. See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

The Series 2013 Water Bonds will be dated the date of issuance thereof. Ownership interests in the Series 2013 Water Bonds will be in \$5,000 denominations or any integral multiple thereof. Interest on the Series 2013 Water Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2014, calculated on the basis of a 360-day year and twelve 30-day calendar months. The Series 2013 Water Bonds will mature on the dates and in the principal amounts, and the interest thereon shall be computed at the rates, all as set forth on the inside cover page of this Official Statement.

Redemption

No Optional Redemption. The Series 2013 Water Bonds are not subject to optional redemption prior to maturity.

Extraordinary Redemption. The Series 2013 Water Bonds are subject to redemption prior to maturity as a whole on any date or in part by lot (in integral multiples of \$5,000 principal amount) on any interest payment date, from prepaid Series 2013 Installment Payments made by the District from funds received by the District due to a casualty loss or governmental taking of the District's Domestic Water Project or portions thereof by eminent domain proceedings, under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and the Installment Purchase Contract, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Summary of Installment Purchase Contract – Covenants of the District – Insurance."

Selection of Series 2013 Water Bonds for Redemption. If less than all of the Series 2013 Water Bonds are to be redeemed, the District may select the maturities of the Series 2013 Water Bonds to be redeemed by filing a Written Request of the District with the Trustee. If less than all of the Series 2013 Water Bonds of any one maturity are to be redeemed on any one date, the Trustee shall select the Water Bonds of such maturity by lot in a manner which the Trustee deems to be fair; provided, however, that with respect to Insured Series 2013 Water Bonds which are redeemed in part pursuant to an extraordinary redemption as described in the preceding paragraph, the selection of such Insured Series 2013 Water Bonds to be redeemed shall be subject to the approval of Assured Guaranty Municipal Corp., as the bond insurer of the Insured Series 2013 Water Bonds.

Notice of Redemption. Notice of redemption shall be given by the Trustee by mail to the registered owner of each Series 2013 Water Bond to be redeemed not less than 30 nor more than 60 days prior to the redemption date at the address shown on the registration books of the Trustee on the date such notice is mailed. So long as DTC is acting as securities depository for the Series 2013 Water Bonds, notice of redemption will be mailed to DTC and not to beneficial owners of the Series 2013 Water Bonds. Each notice of redemption shall state the date of such notice, the date of issuance of the Series 2013 Water Bonds, the redemption date, the redemption prices, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number of the Series 2013 Water Bonds, the source of the funds to be used for such redemption, the principal amount of the Series 2013 Water Bonds to be redeemed, the distinctive bond numbers of the Series 2013 Water Bonds or portions thereof to be redeemed, the rate of interest payable on the Series 2013 Water Bonds to be redeemed and the maturity date of the Series 2013 Water Bonds to be redeemed, and shall also state that the interest payable on the Series 2013 Water Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Series 2013 Water Bonds the principal amount of the Series 2013 Water Bonds to be redeemed, interest accrued thereon to the redemption date and the premium, if any, thereon (such premium to be specified) and shall require that such Series 2013 Water Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee, the Series 2013 Water Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Series 2013 Water Bonds so called for redemption shall cease to accrue, such Series 2013 Water Bonds shall cease to be entitled to any lien, benefit or security under the Trust Agreement, and the Owners of such Series 2013 Water Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS

Pledge Under the Trust Agreement

The Series 2013 Water Bonds are special, limited obligations of the Authority payable solely from and secured solely by a first pledge of and charge and lien upon (i) all Series 2013 Installment Payments and other payments made by the District and received by the Authority pursuant to the Installment Purchase Contract and (ii) all interest or other income derived from the investment of any money in any fund or account (other than the Rebate Fund) held under the Trust Agreement (collectively, the “Revenues”), and any other amounts (including proceeds of the sale of the Series 2013 Water Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund), all under the terms and conditions set forth in the Trust Agreement. As and to the extent set forth in the Trust Agreement all the Revenues and such other amounts are irrevocably pledged to the payment of the interest on and principal of the Series 2013 Water Bonds as provided in the Trust Agreement and the Revenues shall not be used for any other purpose while any of the Series 2013 Water Bonds remain outstanding; provided, however, that out of such Revenues and other moneys certain sums may be applied for other purposes as permitted under the Trust Agreement. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

THE SERIES 2013 WATER BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR OF ITS MEMBERS (INCLUDING THE DISTRICT) NOR OF ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE REVENUES IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS. THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY NOR OF ANY MEMBER OF THE AUTHORITY (INCLUDING THE DISTRICT) NOR OF ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Installment Payments

The District has agreed in the Installment Purchase Contract to make the Series 2013 Installment Payments as payment of a portion of the purchase price of the original Domestic Water Project, but solely from Treatment and Delivery Revenues (as defined herein) received by the District from the City pursuant to the Treatment and Delivery Agreement, unless the District elects to appropriate monies to pay such obligations. See “The Treatment and Delivery Agreement – *Special Budgeting Covenant of the*

District.” The District is required to make Series 2013 Installment Payments whether or not the Domestic Water Project or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Outstanding Domestic Water Project Obligations

Upon the issuance of the Series 2013 Water Bonds and the retirement of the Series 1998D Water Bonds being refunded, in addition to the Series 2013 Water Bonds, the Series 2007 Water Bonds will be outstanding in the principal amount of \$93.190 million. The Series 2007 Water Bonds are payable from the Series 2007 Installment Payments to be made by the District to the Authority pursuant to the 2007 Installment Purchase Contract, solely from Treatment and Delivery Revenues received by the District from the City pursuant to the Treatment and Delivery Agreement. The Series 2013 Installment Payments to be made by the District pursuant to the Installment Purchase Contract will be payable by the District on a parity with the Series 2007 Installment Payments to be made by the District pursuant to the 2007 Installment Purchase Contract. The District has covenanted in the Installment Purchase Contract and the 2007 Installment Purchase Contract that in any year that Treatment and Delivery Revenues are insufficient to make the Series 2013 Installment Payments and the Series 2007 Installment Payments in full when due to pay the Series 2013 Water Bonds and Series 2007 Water Bonds, respectively, an Authorized District Representative will submit a special budget item to the District Board seeking a special appropriation in the amount of such insufficiency. The District Board shall have absolute discretion in determining whether or not to make such special appropriation. See “The Treatment and Delivery Agreement – *Special Budgeting Covenant of the District.*” See also “APPENDIX E – SCHEDULE OF INSTALLMENT PAYMENTS” for a schedule of the Series 2013 Installment Payments and the outstanding Series 2007 Installment Payments.

The Series 2007 Water Bonds are floating rate bonds and bear interest at a LIBOR-Based Interest Rate equal to a specified percentage of the Three Month LIBOR Rate plus an applicable spread for each maturity. In connection with the issuance of the Series 2007 Water Bonds, the Authority entered into an interest rate swap agreement in the form of an ISDA Master Agreement (Local Currency – Single Jurisdiction), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex and two Confirmations each dated as of and entered into on June 5, 2007 (collectively, the “Domestic Water Swap Agreement”) with Bear Stearns Capital Markets Inc., the obligations of which have been assumed by to JPMorgan Chase Bank, N.A. (the “Swap Provider”). The Domestic Water Swap Agreement is scheduled to expire on the maturity date of the Series 2007 Water Bonds; and the notional amount of the Domestic Water Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal on the Series 2007 Water Bonds is scheduled to be reduced. Pursuant to the Domestic Water Swap Agreement, the Authority is required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest equal to 4.378% on an initial notional amount equal to the principal amount of the Series 2007 Water Bonds maturing on September 1, 2027 and a fixed rate of interest equal to 4.440% on an initial notional amount equal to the principal amount of the Series 2007 Water Bonds maturing on September 1, 2037. In return, the Swap Provider is required to make periodic payments to the Authority for deposit in the Interest Account pursuant to the Trust Agreement calculated on the basis of a variable rate of interest equal to the applicable interest rate on each maturity of the Series 2007 Water Bonds on the same notional amount of each such maturity of the Series 2007 Water Bonds. The amounts payable by each party pursuant to the Domestic Water Swap Agreement are netted against the payments to be received by such party thereunder such that the net interest obligation with respect to each maturity of the hedged Series 2007 Water Bonds is equal to the fixed interest rate payable by the Authority under the Domestic Water Swap Agreement with respect to that maturity.

Both the Authority and the Swap Provider have the right to terminate the Domestic Water Swap Agreement prior to its stated termination date under certain conditions. Any such termination could result in an obligation on the part of the Authority or the Swap Provider to make termination payments to the other party, and the amount of such termination payments could be substantial. As of June 28, 2013, the Authority would have been required to pay a termination payment to the Swap Provider if the Domestic Water Swap Agreement were terminated as of such date in the estimated amount of approximately \$24.6 million.

Pursuant to the Treatment and Delivery Agreement, “Debt Service” (as further defined below) for which the City is obligated to make payments to the District under the Treatment and Delivery Agreement, includes all scheduled payments, termination payments or other types of payments required to be made under the terms of any swap contract entered into in connection with variable rate financing for the Domestic Water Project, including the Domestic Water Swap Agreement. The Authority’s obligations under the Domestic Water Swap Agreement to make scheduled payments and termination payments constitute Debt Service under the Treatment and Delivery Agreement. See “– The Treatment and Delivery Agreement” below.

The Treatment and Delivery Agreement

Treatment and Delivery Revenues. Pursuant to the Treatment and Delivery Agreement, the City has agreed to pay the payments (“Payments”) due thereunder during each twelve month period beginning on May 1 and ending on the next succeeding April 30 (a “Domestic Water Year”) in equal monthly installments. Payments to be made by the City under the Treatment and Delivery Agreement will include, among other things, so long as any Domestic Water Bonds (as defined in Appendix C hereto) are outstanding, principal, interest and other charges, if any, due with respect to the Domestic Water Bonds and all payments due under the Domestic Water Swap Agreement and any future swap contract that may be entered into in connection with variable rate financing for the Domestic Water Project (“Debt Service”). Debt Service Payments received by the District from the City pursuant to the Treatment and Delivery Agreement are referred to herein as “Treatment and Delivery Revenues.” See “THE DOMESTIC WATER PROJECT – The Treatment and Delivery Agreement” for a further discussion of the Payments required to be made by the City under the Treatment and Delivery Agreement.

Pledge of Treatment and Delivery Revenues. Pursuant to the Installment Purchase Contract, the District has pledged to the payment of the Series 2013 Installment Payments, the Series 2007 Installment Payments, all payments due under the Domestic Water Swap Agreement (hereinafter, “Domestic Water Swap Installment Payments”) and all payments under any contracts of the District hereafter authorized in connection with the financing of the Domestic Water Project the installment payments under which are payable on a parity with the Series 2013 Installment Payments, the Series 2007 Installment Payments and the Domestic Water Swap Installment Payments (all of the foregoing payments collectively, the “Domestic Water Installment Payments”), all Treatment and Delivery Revenues received by the District from the City pursuant to the Treatment and Delivery Agreement; and such Treatment and Delivery Revenues shall not be used for any other purpose while any of the Domestic Water Installment Payments remain unpaid; provided, however, that out of Treatment and Delivery Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Contract and the 2007 Installment Purchase Contract. Such pledge shall constitute a first lien on the Treatment and Delivery Revenues for the payment of the Domestic Water Installment Payments and all other Domestic Water Contracts (as defined in Appendix C hereto) and Domestic Water Bonds (collectively “Domestic Water Obligations”) in accordance with the terms of the Installment Purchase Contract and the 2007 Installment Purchase Contract; provided, however, that such pledge shall secure any portion of the Domestic Water Swap Installment Payments that constitute termination payments under the Domestic Water Swap Agreement (or any future swap agreement entered into in connection with the financing of

the Domestic Water Project) on a second lien subordinate basis and such security for such termination payments shall be junior to the pledge of Treatment and Delivery Revenues securing other Domestic Water Installment Payments.

City Obligations Limited to City Gross Water Revenues; Pledge of City Gross Water Revenues.

The obligation of the City to make Payments under the Treatment and Delivery Agreement is limited to City Gross Water Revenues. “City Gross Water Revenues” is defined in the Treatment and Delivery Agreement as all gross income and revenue received or receivable by the City from the ownership and operation of the City Water Utility System (see “THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM”), which gross income and revenue shall be calculated in accordance with generally accepted accounting principles, including all rates, fees and charges received by the City for water service and connection and hookup fees and all other income and revenue however derived by the City from the ownership and operation of or arising from the City Water Utility System, but excluding in all cases any proceeds of taxes and any refundable deposits made to establish credit, federal or state grants, or advances or contributions in aid of construction, or monetary recoveries in lawsuits on behalf of City’s water rate payers for environmental and other torts and actions at law.

All City Gross Water Revenues are irrevocably pledged to the punctual payment of principal and interest and redemption premiums, if any, evidenced by the Domestic Water Obligations (including the payment of amounts due under the Domestic Water Swap Agreement), all as represented by the Debt Service component of the Payments made by the City pursuant to the Treatment and Delivery Agreement. Such pledge shall constitute a lien on and security interest in City Gross Water Revenues. Such pledge is on a parity with the pledge of City Gross Water Revenues for the payment of all obligations of the City heretofore or hereafter to be incurred by the City payable from and secured by a lien on the City Gross Water Revenues on a parity with the obligations of the City with respect to the Domestic Water Obligations, subject to the terms of the Treatment and Delivery Agreement (see “ – *Additional Encumbrances of City Gross Water Revenues*” below). The pledge of City Gross Water Revenues for the payment of termination amounts due under the Domestic Water Swap Agreement shall be on a basis subordinate to the pledge for the payment of such parity obligations, and such termination payments shall constitute subordinate debt under the Treatment and Delivery Agreement.

THE OBLIGATION OF THE CITY TO MAKE PAYMENTS UNDER THE TREATMENT AND DELIVERY AGREEMENT IS A SPECIAL LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM CITY GROSS WATER REVENUES AS PROVIDED IN THE TREATMENT AND DELIVERY AGREEMENT. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR PAYMENTS UNDER THE TREATMENT AND DELIVERY AGREEMENT AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO SUCH PAYMENTS.

City Rate Covenant. Pursuant to the Treatment and Delivery Agreement, the City covenants, among other things, that it shall fix, prescribe and collect water rates and charges which shall be at least sufficient to yield City Gross Water Revenues during each fiscal year of the City in an amount equal to: (i) the payment obligations of the City under the Treatment and Delivery Agreement during the fiscal year other than Debt Service (see “THE DOMESTIC WATER PROJECT – The Treatment and Delivery Agreement”), plus (ii) maintenance and operation costs of the City Water Utility System to the extent not included in (i) above, plus (iii) 125% of the Debt Service to be paid during the fiscal year.

As described below under “– *Additional Encumbrances of City Gross Water Revenues*,” the City has in the past, and may in the future, issue or incur other obligations secured by a pledge of the City Gross Water Revenues on a parity with its obligations under the Treatment and Delivery Agreement. The City has covenanted under the Treatment and Delivery Agreement that it will require a covenant

substantially similar to the City Rate Covenant in the Treatment and Delivery Agreement with respect to all obligations issued by the City on a parity with its obligations under the Treatment and Delivery Agreement.

Additional Encumbrances of City Gross Water Revenues. In addition to its obligations under the Treatment and Delivery Agreement, including its obligations relating to the Series 2013 Installment Payments, the Series 2007 Installment Payments and the Domestic Water Swap Agreement, as of June 30, 2013, the City has outstanding \$45.86 million aggregate principal amount of Water Refunding Revenue Certificates of Participation, 2008 Series A (the “2008 City Certificates”) evidencing and representing the interests of the owners thereof in installment payments to be made by the City pursuant to the Master Installment Purchase Contract, dated as of November 1, 1997, as supplemented by the 2008 Supplemental Installment Purchase Contract, dated as of May 1, 2008 (collectively, the “Master Contract”), by and between the City and the Modesto Public Financing Authority, as well as, among other things, certain obligations under an interest rate swap agreement entered into by the City relating thereto as described below.

The 2008 City Certificates are variable rate certificates of participation in connection with which the City has entered into a reimbursement agreement with a bank to provide credit and liquidity support for such variable rate 2008 City Certificates in the form of a letter of credit. The obligation of the City to repay any amounts drawn under such letter of credit (in the case of a draw for liquidity upon a tender of such 2008 City Certificates, to the extent such repayment is not thereafter provided from remarketing proceeds) is payable on a parity with the City’s obligation to make installment payments relating to the 2008 City Certificates under the Master Contract and the City’s obligations to make Debt Service Payments under the Treatment and Delivery Agreement relating to the Series 2013 Water Bonds and the outstanding Series 2007 Water Bonds and the Domestic Water Swap Agreement. Unreimbursed amounts drawn under such letter of credit supporting such variable rate 2008 City Certificates bear interest at a maximum rate that may be substantially in excess of the rate evidenced by the related variable rate 2008 City Certificates.

In connection with the execution and delivery of certificates of participation that were refunded by the 2008 City Certificates, the City entered into an interest rate swap agreement in the form of an ISDA Master Agreement (Local Currency – Single Jurisdiction), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex and a Confirmation each dated as of and entered into on September 27, 2006, as amended in connection with the delivery of the 2008 City Certificates (collectively, the “2008 City Swap Agreement”) with Bank of America, N.A. (the “City Swap Provider”). The 2008 City Swap Agreement is scheduled to expire on the maturity date of the 2008 City Certificates; and the notional amount of the 2008 City Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal evidenced by the 2008 City Certificates is scheduled to be reduced. Pursuant to the 2008 City Swap Agreement, the City is required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest of 3.4747% per annum on an initial notional amount equal to the principal amount represented by the 2008 City Certificates. Certain of the amounts that may be payable by the City to the Swap Provider are insured pursuant to a policy of interest rate swap insurance (the “Swap Policy”) issued by Assured Guaranty Corp. In return, the Swap Provider is required to make periodic payments to the City calculated on the basis of a variable rate of interest equal to 63.7% percent of one month LIBOR plus 0.154% on the same notional amount. The amounts payable by each party pursuant to the 2008 City Swap Agreement are netted against the payments to be received by such party thereunder.

The 2008 City Swap Agreement was entered into to hedge the interest rate exposure on the 2008 City Certificates by synthetically converting the variable rate interest payments that the City is obligated to make with respect to the 2008 City Certificates into substantially fixed rate payments. However, there

is no guarantee that the floating rate payable to the City pursuant to the 2008 City Swap Agreement will match the variable interest rate on the associated 2008 City Certificates at all times or at any time. Generally, the floating rates payable to the City pursuant to the 2008 City Swap Agreement have not matched the variable interest rates on the associated 2008 City Certificates exactly. To the extent that the City Swap Provider is obligated to make a payment to the City under the 2008 City Swap Agreement that is less than the interest due on the associated 2008 City Certificates, the City is obligated to pay such insufficiency from City Gross Water Revenues.

Both the City and the City Swap Provider have the right to terminate the 2008 City Swap Agreement prior to its stated termination date under certain conditions. Any such termination could result in an obligation on the part of the City or the City Swap Provider to make termination payments to the other party, and the amount of such termination payments could be substantial. As of June 28, 2013, the City would have been required to pay a termination payment to the City Swap Provider if the 2008 City Swap Agreement were terminated as of such date in the estimated amount of approximately \$8.3 million.

The City's obligations under the 2008 City Swap Agreement to make scheduled payments and certain termination payments (but only if such termination payments are insured pursuant to the Swap Policy), as well as the City's obligation to repay any amounts which have been drawn under the Swap Policy that have not been reimbursed by the City, are payable on a parity with the City's obligation to make installment payments relating to the 2008 City Certificates under the Master Contract and the City's obligations to make Debt Service Payments under the Treatment and Delivery Agreement relating to the Series 2013 Water Bonds and the outstanding Series 2007 Water Bonds and the Domestic Water Swap Agreement. The City's obligations to make termination payments under the 2008 City Swap Agreement which are not insured are payable on a subordinate basis.

As of June 30, 2013, the City also had outstanding three long-term loans payable from City Gross Water Revenues: (i) a loan from the State of California Department of Water Resources in the outstanding principal amount of \$631,373 (the "CDWR Loan"), (ii) a loan payable to State of California Department of Public Health, the maximum loan amount under which is \$800,000, of which 50% or an estimated \$400,000 will not need to be repaid as described below (the "ARRA Water Grant"), and (iii) an advance from the District with respect to certain repairs and maintenance required to be undertaken at the Domestic Water Project in the aggregate outstanding principal amount of \$3,434,339 (the "MID Advance") being repaid over five years.

The CDWR Loan and the ARRA Water Grant were made to the City to provide assistance to the City in financing certain improvements to the City Water Utility System. The CDWR Loan is to be repaid by the City in semi-annual installments, including interest thereon at an annual rate of 3.2%, through October 1, 2015. The ARRA Water Grant constitutes funding in the form of a loan with forgiveness of a portion of the principal made by State under the provisions of California Safe Drinking Water State Revolving Fund Law of 1997, and the American Recovery and Reinvestment Act of 2009 (ARRA) Public Law 11 1-5. The ARRA Water Grant is to be repaid by the City over a 20-year term ending in 2032 at an annual interest rate of 2.5%. The MID Advance was made by the District to fund the costs of certain repairs and maintenance for the exterior insulation finish system and gutter systems, and certain metal and low sloped roofing replacement at the Domestic Water Project. Payments are being made by the City in annual installments with interest as provided in the Treatment and Delivery Agreement. The final installment to be paid by the City is due no later than July 31, 2014. The CDWR Loan and the ARRA Water Grant are payable on a parity with the City's obligation to make installment payments relating to the 2008 City Certificates under the Master Contract and the City's obligations to make Debt Service Payments under the Treatment and Delivery Agreement relating to the Series 2013 Water Bonds and the outstanding Series 2007 Water Bonds and the Domestic Water Swap Agreement. The MID

Advance is being repaid as an operating expense of the City Water Utility System (consistent with other payments under the Treatment and Delivery Agreement not constituting Debt Service).

The payment obligations of the City under the CDWR Loan, the ARRA Water Grant, the 2008 City Certificates and the interest rate swap agreement relating thereto, as well as certain payment obligations of the City under certain insurance and reimbursement agreements relating to the foregoing as described above, which obligations are secured by a pledge of City Gross Water Revenues on a parity with the City's obligations to make Debt Service Payments under the Treatment and Delivery Agreement are sometimes collectively referred to herein as the "City Parity Obligations."

The City may issue or incur other obligations secured by a pledge of the City Gross Water Revenues on a parity with its obligations to make Debt Service Payments under the Treatment and Delivery Agreement and its obligations with respect to the other outstanding City Parity Obligations, subject to the terms and conditions of the Treatment and Delivery Agreement and the Master Contract.

Pursuant to the Treatment and Delivery Agreement, the City has covenanted that it will require a covenant substantially similar to the City rate covenant in the Treatment and Delivery Agreement with respect to all obligations issued by the City on a parity with its obligations under the Treatment and Delivery Agreement. The City may also issue or incur loans, bonds, notes, advances or indebtedness payable from City Gross Water Revenues on a junior and subordinated basis to its obligations under the Treatment and Delivery Agreement and the Master Contract in such principal amount as shall be determined by the City. The City will not incur any obligations payable from City Gross Water Revenues prior to its obligations under the Treatment and Delivery Agreement and the Master Contract.

Limited Take-or-Pay Obligation. The Treatment and Delivery Agreement provides that, except as limited by the next sentence, the City shall pay the fixed costs of the Domestic Water Project and its Debt Service Payment obligations whether or not the Domestic Water Project or any part of it is operating or operable or its output or capability is suspended, interrupted, interfered with, reduced or curtailed, or terminated in whole or in part. The payments of such fixed costs of the Domestic Water Project and Debt Service shall not be subject to reduction whether by offset, counterclaim, recoupment, or otherwise and shall not be conditioned upon the performance or nonperformance by the District or the City of any agreement or for any cause or reason whatsoever; provided, however, that the City shall not be required to pay Debt Service or fixed costs, in the event any of the following certain specified conditions shall occur:

- (i) The District, for any reason other than drought, shall fail to deliver at least 50% of the treated water which the City is to receive under the Treatment and Delivery Agreement for a period in excess of 18 consecutive months.
- (ii) 80% or more of the water treatment plant component of the Domestic Water Project shall be destroyed or disabled for a period in excess of 24 consecutive months.
- (iii) 50% or more of the District's total annual water supply, as adjusted pursuant to the Treatment and Delivery Agreement, shall be lost or unavailable for physical reasons beyond the District's best efforts to control, other than drought, for a period in excess of 24 consecutive months.

Special Budgeting Covenant of the District. Pursuant to the Installment Purchase Contract, the District has covenanted that in the event Treatment and Delivery Revenues and other amounts pledged under the Trust Agreement are insufficient to pay in full any amount then due and payable with respect to the Series 2013 Water Bonds, due to the suspension of the City's obligation to pay as described above

under “–*Limited Take-or-Pay Obligation*” or otherwise, an Authorized District Representative shall submit to the Board of Directors of the District a special budget item requesting a special appropriation from the Board of Directors of the District of the amount of such insufficiency; provided, however, the Board of Directors of the District shall have absolute discretion in determining whether such a special appropriation shall be made, and a determination not to make a special appropriation shall not in and of itself constitute an Event of Default under the Installment Purchase Contract. In the event of such insufficiency of Treatment and Delivery Revenues and a decision by the Board of Directors of the District not to make such special appropriation to pay interest and principal on the Series 2013 Water Bonds, there are no other amounts pledged to the payment of the Series 2013 Water Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

Reserve and Contingency Fund. Pursuant to the Treatment and Delivery Agreement, the District has established and maintains a Reserve and Contingency Fund. The Reserve and Contingency Fund was initially funded in the amount of \$500,000. The District may from time to time increase or decrease the amount required to be on deposit in the Reserve and Contingency Fund, subject to the requirements of the Treatment and Delivery Agreement. In the event of an increase in the amount required to be on deposit in the Reserve and Contingency Fund, such additional amount shall be funded in monthly installments made by the City over the next ensuing Domestic Water Year. In the event of a decrease in amounts required to be deposited therein, the excess amount shall be credited against Payments due from the City during the next succeeding Domestic Water Year. As of June 30, 2013, amounts on deposit in the Reserve and Contingency Fund were approximately \$847,615.

Amounts credited to the Reserve and Contingency Fund received from the City may be applied by the District to pay, among other things, Debt Service in the event Treatment and Delivery Revenues are insufficient therefor.

If at any time the Reserve and Contingency Fund is depleted or contains insufficient funds so that the District must advance funds which otherwise would be obtained from withdrawals from the Reserve and Contingency Fund, then the aggregate amount of the advances during any year and the amount necessary to replenish the Reserve and Contingency Fund to its established balance shall be added to the payments to be made by the City during the next ensuing Domestic Water Year.

Series 2013 Reserve Fund

General. The Series 2013 Reserve Fund will be established with and held by the Depositary. The Installment Purchase Contract provides for the funding of the Series 2013 Reserve Fund in an amount equal to the Series 2013 Reserve Fund Requirement, defined as an amount equal to the maximum annual Series 2013 Installment Payments. In the event that Series 2013 Installment Payments paid by the District to the Trustee are insufficient to pay principal of and interest on the Series 2013 Water Bonds when due, the Depositary shall transfer from the Series 2013 Reserve Fund the amount of such insufficiency. The Series 2013 Reserve Fund is not available for the payment of Domestic Water Bonds other than the Series 2013 Water Bonds.

In the event amounts on deposit in the Series 2013 Reserve Fund are less than the Series 2013 Reserve Fund Requirement, the District is required to deposit monthly, from moneys remaining in the Domestic Water Project Revenue Fund after the required deposits for the payment of principal and interest on all Domestic Water Obligations, 1/12 of the amount necessary to restore the Series 2013 Reserve Fund to an amount equal to the Series 2013 Reserve Fund Requirement.

The District may provide for the Series 2013 Reserve Fund by a policy of insurance issued by a municipal bond insurance company the claims paying ability of which is rated at the time of deposit

thereof into the Series 2013 Reserve Fund not lower than the then applicable rating on the Series 2013 Water Bonds by any of Moody's Investors Service, Standard & Poor's Rating Group or Fitch Ratings, or by a letter of credit or other credit facility issued by a bank or other financial institution, the obligations of which are rated at the time of deposit thereof into the Series 2013 Reserve Fund not lower than the then applicable rating on the Series 2013 Water Bonds by any of Moody's Investors Service, Standard & Poor's Rating Group or Fitch Ratings, in each case, if such rating agency is then rating obligations of the District. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Summary of Installment Purchase Contract – Revenues – Series 2013G Reserve Fund."

Reserve Policy. Upon the delivery of the Series 2013 Water Bonds, there will be credited to the Series 2013 Reserve Fund a municipal bond debt service reserve insurance policy (the "Reserve Policy") issued by Assured Guaranty Municipal Corp. (the "Reserve Insurer") with a policy limit in the amount of the Series 2013 Reserve Fund Requirement (being, upon the delivery of the Series 2013 Water Bonds, \$_____). The Reserve Policy provides that upon notice from the Trustee to the Reserve Insurer to the effect that insufficient amounts are on deposit in the Series 2013G Revenue Fund under the Trust Agreement to pay the principal of (at maturity or pursuant to mandatory sinking fund redemption requirements, if applicable) and interest on the Series 2013 Water Bonds, the Reserve Insurer will promptly deposit with the Trustee that portion of the principal of and interest on the Series 2013 Water Bonds that shall be due for payment but shall be unpaid by reason of nonpayment by the Authority or the Policy Limit, whichever is less. Pursuant to the Trust Agreement, the Trustee will use all available cash, if any, in the Series 2013 Reserve Fund prior to making a claim on the Reserve Policy. The Policy Limit is the dollar amount of the Series 2013 Reserve Fund Requirement required to be maintained in the Series 2013 Reserve Fund for the Series 2013 Water Bonds from time to time (less the amount of any previous deposits by the Reserve Insurer with the Trustee which have not been reimbursed by the Authority as described below), but in no event shall the Policy Limit exceed \$_____. Pursuant to the terms of the Reserve Policy, the Policy Limit is automatically reduced to the extent of each payment made by the Reserve Insurer under the terms of the Reserve Policy. The District is required to reimburse the Reserve Insurer from first available Treatment and Delivery Revenues for any draws under the Reserve Policy with interest as provided in the Installment Purchase Contract. Upon such reimbursement, the amount available under the Reserve Policy is reinstated to the extent of each reimbursement up to but only up to the Policy Limit. The Installment Purchase Contract provides that in replenishing the Series 2013 Reserve Fund, the Trustee will apply amounts received from the District for such purpose first to make any payment that is due under a guaranty or insurance agreement or similar instrument relating to a surety bond or insurance policy (including the Reserve Policy) on deposit in or credited to the Series 2013 Reserve Fund prior to depositing any such funds in the Series 2013 Reserve Fund.

Insurance

The District covenants pursuant to the Installment Purchase Contract that it will procure and maintain or cause to be procured and maintained insurance on the Domestic Water Project with responsible insurers in such amounts and against such risks (including accident to or destruction of the Domestic Water Project) as are usually covered in connection with domestic water systems similar to the Domestic Water Project so long as such insurance is available from reputable insurance companies at reasonable costs. See APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Summary of Installment Purchase Contract – Covenants of the District – Insurance."

BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS

Bond Insurance Policy

Concurrently with the issuance of the Series 2013 Water Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Series 2013 Water Bonds maturing on September 1 of the years ____ through ____, inclusive (as defined herein, the “Insured Series 2013 Water Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Series 2013 Water Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA-” (stable outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On June 12, 2013, S&P published a report in which it affirmed AGM’s “AA-” (stable outlook) financial strength rating. AGM can give no assurance as to any further ratings action that S&P may take.

On January 17, 2013, Moody’s issued a press release stating that it had downgraded AGM’s insurance financial strength rating to “A2” (stable outlook) from “Aa3”. AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013.

Capitalization of AGM. At March 31, 2013, AGM’s consolidated policyholders’ surplus and contingency reserves were approximately \$3,468,362,848 and its total net unearned premium reserve was approximately \$1,990,661,506, in each case, in accordance with statutory accounting principles.

For additional information relating to the capitalization of AGM, please see the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the “SEC”) on July 22, 2013 (excluding the portion thereof “furnished” under Item 7.01 of such Form).

Incorporation of Certain Documents by Reference. Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (filed by AGL with the SEC on March 1, 2013); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (filed by AGL with the SEC on May 10, 2013).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, (excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K) after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters. AGM or one of its affiliates may purchase a portion of the Insured Series 2013 Water Bonds or any uninsured Series 2013 Water Bonds offered under this Official Statement and such purchases may constitute a significant proportion of the Series 2013 Water Bonds offered. AGM or such affiliate may hold such Insured Series 2013 Water Bonds or uninsured Series 2013 Water Bonds for investment or may sell or otherwise dispose of such Insured Series 2013 Water Bonds or uninsured Series 2013 Water Bonds at any time or from time to time.

AGM makes no representation regarding the Series 2013 Water Bonds or the advisability of investing in the Series 2013 Water Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the

heading “BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS” and in APPENDIX H – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY FOR THE INSURED SERIES 2013 WATER BONDS.”

THE DOMESTIC WATER PROJECT

Background and History

Since 1904, the District has supplied all water for agricultural uses within its irrigation service area, primarily from its perfected water rights to Tuolumne River water. Water for municipal and industrial uses within the Modesto area was historically supplied by the City (since 1895) and the Del Este Water Company (since 1912), solely from groundwater sources. As hereinafter described, in July 1995, the City purchased substantially all of the assets and liabilities of Del Este and since that time has provided water for municipal and industrial uses within a water service area including all of the property within the corporate boundaries of the City and the communities of Salida, Waterford, Empire, Hickman, Grayson, and parts of Turlock, Ceres and Del Rio. See “THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM” and “APPENDIX B – CERTAIN INFORMATION REGARDING THE CITY OF MODESTO.” Rapid urbanization of the region in the last few decades has resulted in a reduction in the irrigated acreage within the District’s service area and an increase in the demand for municipal water uses, with a corresponding decline in groundwater availability and quality. Beginning in 1984, the District, the City and Del Este retained James M. Montgomery, Consulting Engineers, Inc. (“JMM”) to undertake a series of studies resulting in the development of a water management plan for the conjunctive use of groundwater and treated surface water to meet the area’s municipal and industrial water needs, while protecting and managing the limited groundwater resources. As a result of these studies, the District, in cooperation with the City and Del Este, determined to undertake the Domestic Water Project.

In April 1992, the District entered into the Treatment and Delivery Agreement with the City and Del Este. Pursuant to the Treatment and Delivery Agreement, the District agreed to construct and operate the Domestic Water Project and to supply treated water from the Domestic Water Project to the City and Del Este, in consideration for which the City and Del Este agreed to pay the costs of acquisition and construction and operation of the Domestic Water Project. Pursuant to the Treatment and Delivery Agreement, the City was initially allocated a 70% share of the output of the Domestic Water Project, and was likewise responsible for 70% of the costs of the Domestic Water Project; Del Este was allocated a 30% share of the output of the Domestic Water Project and was likewise responsible for 30% of its cost. Proceeds of the Series 1998D Water Bonds (which are being refunded by the Series 2013 Water Bonds) were used to refund bonds issued by the Authority in 1992 and 1995 issued to finance the costs of the acquisition and construction of the first phase of the Domestic Water Project, which was designed by Black & Veatch Corporation, as consulting engineers, and placed into operation in 1995. Proceeds of the outstanding Series 2007 Water Bonds were issued to finance the costs of the Phase Two Expansion of the Domestic Water Project, the completion of which has been delayed and is not expected to occur before July of 2015. See “– Domestic Water Project Description” below.

In July 1995, the City purchased substantially all of the assets and liabilities of Del Este and in accordance with the provisions of the Treatment and Delivery Agreement assumed all interests, rights and obligations of Del Este under the Treatment and Delivery Agreement. Accordingly, since that time Del Este has had no further obligation to make payments under the Treatment and Delivery Agreement or otherwise with respect to any Domestic Water Bonds.

Domestic Water Project Description

The Domestic Water Project consists of a surface water treatment plant, transmission, storage and distribution facilities. The design capacity of the initial Domestic Water Project facilities was approximately 36 million gallons per day of treated surface water. The water treatment plant is located directly south of the Modesto Reservoir on an approximately 30 acre site, about 15 miles east of the City. The District supplies raw water to the treatment plant. The raw water supply system consists of an intake structure and a delivery pipeline to the plant. Treated water is pumped from two 2.5 million gallon treated water storage reservoirs through approximately 14 miles of transmission pipeline to two five-million gallon terminal storage reservoirs. The water is then distributed through approximately 14 miles of transmission mains to distribution mains in the City's Municipal Water System.

Construction of the initial Domestic Water Project facilities began in October 1992 and the initial Domestic Water Project facilities were placed into operation in January 1995. The actual total cost of acquisition and construction of the initial Domestic Water Project facilities (including contingencies but exclusive of interest during construction, allowance for funds utilized during construction, debt service reserve funds and any financing costs of the Authority) was \$95.877 million. The initial Domestic Water Project facilities were completed 9% under budget.

To help ensure that the District will be able to deliver a firm drinking water supply to the City, the District petitioned and received from the California State Water Resources Control Board (the "SWRCB") permission to treat and deliver to the City water stored in Don Pedro Reservoir (WR Order No. 2005-0022-DWR). The water treated during the initial phase of the water treatment plant was supplied by the District's pre-1914 water rights. In connection with the Phase Two Expansion of the Domestic Water Project, the District obtained from the SWRCB WR Order No. 2005-0022-DWR, which amended a license held by the District and Turlock Irrigation District (License 11058) which authorizes the District and Turlock Irrigation District to store up to 1,046,800 acre-feet of water in Don Pedro Reservoir between November 1 and the succeeding July 31 for irrigation and recreational use. WR Order No. 2005-0022-DWR authorized a long-term transfer, effective through December 31, 2054, of up to 67,200 acre-feet of water per year to the City and added municipal and industrial purposes to the uses of water permitted under the transfer. During the period of the long-term transfer, the District is required to comply with all of the terms and conditions required by the Federal Energy Regulatory Commission for the Don Pedro Project. In addition, pursuant to California Water Code Sections 100 and 275 as well as the common law public trust doctrine, all rights and privileges under the long-term transfer order, including method of diversion, method of use and quantity of water diverted, are subject to the continuing authority of the SWRCB in accordance with law and in the interest of the public welfare to protect public trust uses and to prevent waste, unreasonable use, unreasonable method of use or unreasonable method of diversion. The District will utilize water held under this licensed right, or both rights, to serve the expanded plant.

In 2007, the District and the City agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("MGD") to a design capacity of 72 MGD (referred to as the Phase Two Expansion). The Phase Two Expansion was designed to add a 36 MGD membrane filtration plant, while essentially leaving the original Domestic Water Project treatment facilities in place. A contract for the design and management of the construction of the Phase Two Expansion project was awarded by the District to Black & Veatch Corporation. The membrane filtration plant employs a microfiltration technology involving the installation of a series of submerged membranes for the treatment of surface water. In addition to the membrane filtration systems, other major categories of equipment included in the Phase Two Expansion project were ozone system modifications, a dissolved air flotation treatment system, chemical feed building modifications, replacement of the Supervisory Control and Data Acquisition and Programmable Logic Controller

computer systems that control plant operations, and treated water pumping system modifications. Source water for the Phase Two Expansion will be supplied by the District from the existing intake from Modesto Reservoir, which will flow by gravity to the water treatment plant. Raw water will flow through a 60-inch water line that will empty into a raw water head tank which will serve as the primary controlled water service elevation upstream of the membrane system. The Phase Two Expansion project includes the installation of a rapid mix pump station downstream of the raw water head tank to mix alum with the raw water for the purpose of improving membrane performance. The submerged membrane treatment will be followed by application of ozone through new oxygen-fed ozone generators which will provide ozone for both the existing and new treatment facilities. A dissolved air flotation unit, which removes solids and other contaminants using air flotation, will be supplied for the existing conventional solids handling system. Additional solids handling facilities will be installed for the new membrane filtration system. The treated water pumps will convey treated water to the Terminal Reservoir Pump Station. A contract for the construction of the Phase Two Expansion project was awarded by the District to Western Summit Constructors, Inc. on May 22, 2007. The originally estimated cost of the Phase Two Expansion was approximately \$77.2 million.

Completion of the Phase Two Expansion project is currently expected to occur in July of 2015. This estimated completion date of the expansion represents a delay of over five years past its originally scheduled completion date. By virtue of that delay, as well as remedial action which the District has undertaken and will undertake in the future, multimillion dollar cost overruns have been experienced. Litigation involving the District, the City and the Phase Two Expansion project design engineer, construction manager, general contractor, suppliers and subcontractors ensued and has been recently settled. The settlement consists of cash payments, discounts, compromised reimbursement claims and other contractual/economic concessions. The Engineer of Record, Construction Manager and Construction Consultant have advised the District that based upon preliminary construction cost estimates and after application of the settlement proceeds, an additional \$8.5 million to \$9.0 million in funds will be needed to complete the Phase Two Expansion project by the currently targeted July 2015 completion date. The City and the District are reviewing the options to complete the project and, in the respective views of the parties, the applicable cost responsibility for the additional funds required to complete the project under the terms of the Treatment and Delivery Agreement. In the absence of a funding plan being secured by October 1, 2013, completion of construction of the Phase Two Expansion could be deferred beyond the targeted 2015 completion date and have a higher cost. In the event construction activities are deferred past January 1, 2015, certain elements of the settlement would no longer be available. In such event, the District has estimated the unfunded costs to complete construction of the Phase Two Expansion could be as high as \$18 million. Other identified options include completing the Phase Two Expansion with a reduced treatment capacity, which would reduce the shortfall in available construction funds but is expected to result in increased operation and maintenance costs of the project, or abandoning completion of the Phase Two Expansion project until sometime in the more distant future. To the extent additional funding (either for construction costs or for increased operation and maintenance costs) is ultimately determined to be required from the City, future rate increases beyond those currently projected by the City could be necessary in order to assure compliance with the City Rate Covenant. Any such future rate increases would be subject to City Council approval. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Water Charges and Billing" and "– Certain Limitations on City Imposition of City Water Utility System Fees and Charges." See also "CERTAIN RISK FACTORS." As described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Limited Take-or-Pay Obligation*," pursuant to the Treatment and Delivery Agreement, except under certain limited circumstances, commencing at the time that Debt Service Payments commence in connection with any applicable financing for the Domestic Water Project, the City is obligated to make such Debt Service Payments from City Gross Water Revenues pledged therefor under the Treatment and Delivery Agreement whether or not

the Domestic Water Project or any part of it is operating or operable or its output or capability is suspended, interrupted, interfered with, reduced or curtailed, or terminated in whole or in part.

The Treatment and Delivery Agreement

General. The Domestic Water Project (including the Phase Two Expansion) will be operated pursuant to the Treatment and Delivery Agreement. In accordance with the Treatment and Delivery Agreement, the District designed, financed and constructed the Domestic Water Project and owns, operates and maintains the Domestic Water Project for the purposes of treatment and delivery of water to the City. The District may not assign its maintenance and operation responsibility for the Domestic Water Project without the consent of the City. The City is granted a permanent beneficial interest in the Domestic Water Project output, which may not be transferred or assigned without the consent of the District.

Obligations of the City. The City has agreed to pay all costs and expenses of all phases of the Domestic Water Project, including (i) payments of Debt Service (including the Series 2007 Water Bonds and the Series 2013 Water Bonds) in connection with the financing of the Domestic Water Project, (ii) raw water charges for raw water furnished to the Domestic Water Project by the District, (iii) payments of operation, maintenance, repair, replacement and modification costs attributable to the operation of the Domestic Water Project, (iv) costs of administrative services of the District attributable to the operation of the Domestic Water Project and the administration of the Treatment and Delivery Agreement, (v) costs of insurance required to be maintained by the District pursuant to the Treatment and Delivery Agreement (as described below), (vi) cost of electric energy provided to the Domestic Water Project by the District, and (vii) other payments or costs (and deductions from payments or costs from the Reserve and Contingency Fund, the Series 2007 Reserve Fund and the Series 2013 Reserve Fund) and other amounts as specified by the Treatment and Delivery Agreement.

Exchange of Groundwater for Treated Water. Upon completion of the Phase Two Expansion, the District will be able to treat an average annual amount of 60 million gallons per day (67,204 acre feet/year) of water at the Domestic Water Project for the City, subject to a lesser allocation of treated water in the event of drought or other contingencies as provided in the Treatment and Delivery Agreement. In the event of a reduced allocation in any year, the City may deliver groundwater to the District's irrigation canal system for use by the District's irrigation system in exchange for an additional amount of treated water (subject to the absolute limitation of 67,204 acre feet/year). The City will bear all costs, including the costs of additional capital facilities, if any are necessary, associated with delivering the exchange groundwater supply to the District's irrigation system as described above. The District may not sell any treated water from the Domestic Water Project without first offering such water to the City. Treated water delivered by the District to the City must be utilized by the City within the District's irrigation service area. The District will consult with the City regularly with respect to the scheduling of delivery of treated water from the Domestic Water Project. The District shall be excused from its obligation to deliver treated water in the event that the District is rendered unable, wholly or in part, by force majeure to carry out its obligations under the Treatment and Delivery Agreement. Upon the occurrence of any event of force majeure which impacts the District's ability to deliver treated water, the provisions of the Treatment and Delivery Agreement discussed under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – Limited Take-or-Pay Obligation" shall be determinative as to whether the City is excused from its obligation to pay Debt Service and fixed costs pursuant to the Treatment and Delivery Agreement.

Project Management. Pursuant to the Treatment and Delivery Agreement two advisory committees are formed for the purposes of the Domestic Water Project, the Policy Committee and the Technical Committee. Each of these Committees includes representatives from the District and the City.

The Board of Directors of the District has the authority to make final decisions with respect to the Domestic Water Project, subject to the rights of the City to review and advise the District with respect to certain budgetary matters as provided in the Treatment and Delivery Agreement.

See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement” for additional information regarding the terms of the Treatment and Delivery Agreement.

THE AUTHORITY

The Authority was created in July 1989 by the Joint Exercise of Powers Agreement which was entered into between the District and Redding pursuant to the Joint Exercise of Powers Act. The Authority has the power to enter into contracts, such as the Installment Purchase Contract, to assist the District and Redding in financing public capital improvements, working capital, liability and other insurance needs and other projects whenever there are significant public benefits, as determined by the District or Redding, as appropriate. The Authority is administered by a governing board consisting of the board of directors of the District. Under the Joint Exercise of Powers Agreement, the Authority is a public entity, separate from the District and Redding. The debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of Redding or the District.

THE MODESTO IRRIGATION DISTRICT

The following information regarding the District’s irrigation and electric systems is provided for informational purposes only. *The Series 2013 Water Bonds are payable solely from the Revenues pledged therefor under the Trust Agreement, consisting primarily of the 2013 Installments Payments made by the District and received by the Authority pursuant to the Installment Purchase Contract. The Series 2013 Installment Payments to be made by the District under the Installment Purchase Contract are payable solely from Treatment and Delivery Revenues received by the District from the City pursuant to the Treatment and Delivery Agreement. Other revenues of the District are neither pledged to, nor available for, any payment with respect to the Installment Purchase Contract or the Series 2013 Water Bonds, provided that the District has covenanted to submit to the Board of Directors of the District a special budget item requesting a special appropriation in the amount of any deficiency in Revenues necessary to pay the Series 2013 Water Bonds. The Board of Directors of the District shall have absolute discretion in determining whether such a special appropriation shall be made. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS –The Treatment and Delivery Agreement – Special Budgeting Covenant of the District.”*

The District is a California irrigation district organized in 1887 under the provisions of the California Irrigation District Act, Division 11 of the California Water Code (the “Irrigation District Act”). The District has the powers under the Irrigation District Act to, among other things, provide irrigation and electric service within its irrigation and electric service areas. In connection therewith, the District has the powers of eminent domain, to contract, to construct works, to fix rates and charges for commodities or services furnished and to incur indebtedness.

The District is governed by a board of directors, the five members of which are elected from separate electoral divisions of the District for staggered four-year terms. The members of the board of directors also serve as the governing board of the Authority.

The District is located in the San Joaquin Valley of central California, approximately 90 miles east of San Francisco, California. The District began providing electric service in 1923, and since 1940 has provided all electric service within its original 160 square mile service area, which includes the major

portion of Stanislaus County. Beginning in 1996, the District has also provided electric service on a competitive basis in portions of the service area of Pacific Gas & Electric Company (“PG&E”). California Assembly Bill 2638 (“AB 2638”), effective on January 1, 2001, added the 7.5 square mile Mountain House Community Services District in western San Joaquin County to the District’s exclusive electric service area and also designated a 400 square mile area in Southern San Joaquin County, Northern Stanislaus County, and western Tuolumne County as the District’s non-exclusive electric service area. Pursuant to AB 2638, other than as set forth therein, the District is further prohibited from providing electric transmission or distribution service to retail customers in the service territory of PG&E. For the year ended December 31, 2012, the District served 113,931 customers, had total retail sales of 2.508 billion kWh and a peak demand of 655 MW.

To provide electric service within its service area, the District owns and operates an electric system which includes generation, transmission and distribution facilities. The District also purchases and sells power and transmission service and participates in pooling and other utility arrangements.

The District also supplies water for irrigation use in portions of Stanislaus County. The District receives virtually all of its water supply from the Tuolumne River, pursuant to vested water rights. The District historically has been capable of supplementing its surface water supply by pumping groundwater during periods of drought. Prior to the construction of the Domestic Water Project, the groundwater resource were in a condition of overdraft. Pursuant to the Treatment and Delivery Agreement, the City exchanged groundwater for surface treated water which halted the overdraft condition. The District’s irrigation facilities include the Don Pedro Reservoir, the La Grange Diversion Dam, the Modesto Reservoir, and a canal network.

The audited financial statements of the District for the fiscal year ended December 31, 2012 have been filed with the EMMA and are hereby incorporated herein by reference.

THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM

The following information concerning the City Municipal Water Utility System (referred to herein as the “City Water Utility System”) was obtained from City officials except where otherwise indicated.

History of the City Water Utility System

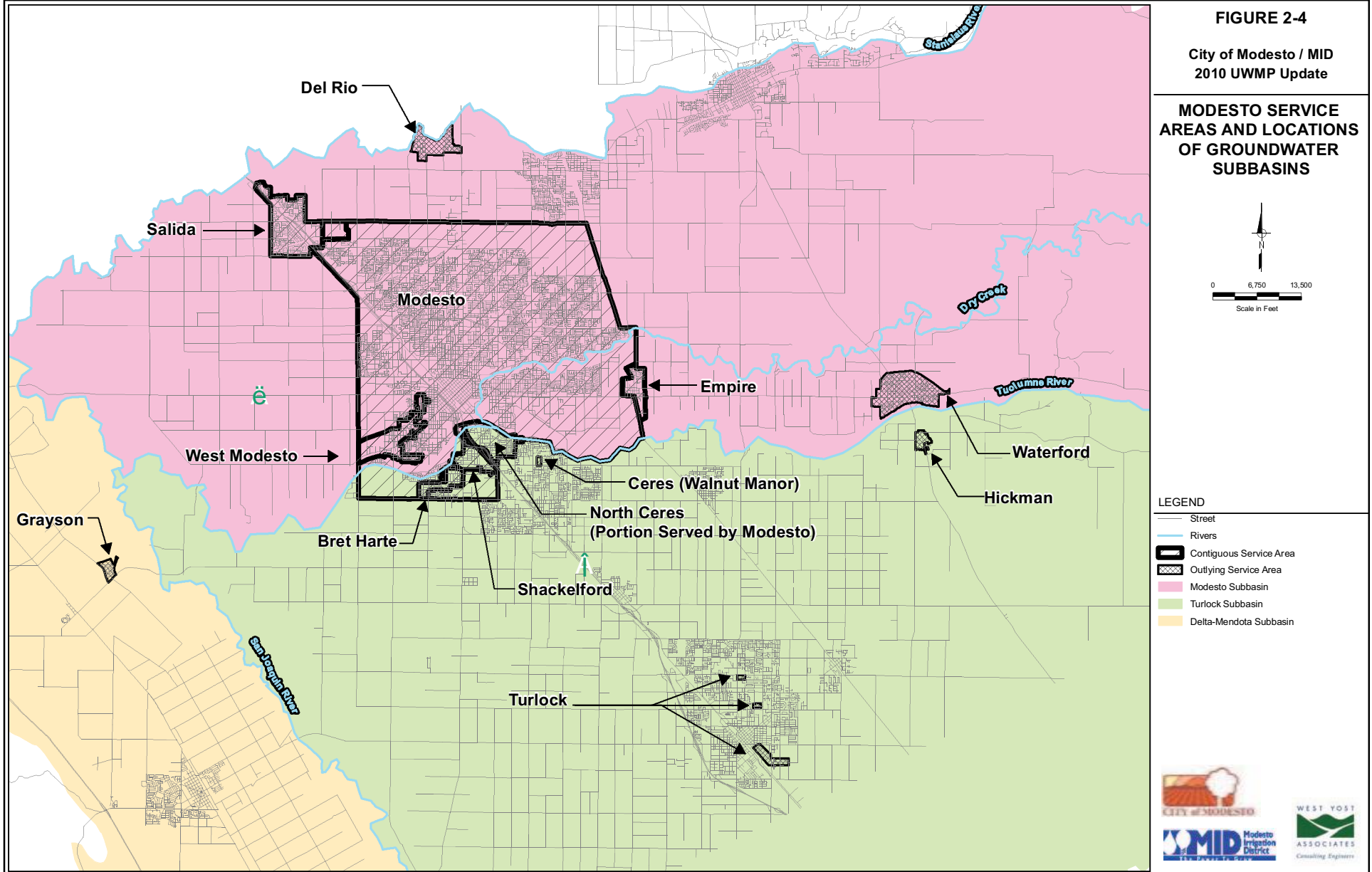
The origin of the City Water Utility System dates back to 1876 when a privately-owned utility, later known as the Modesto Water Company, was established to provide water services to the village of Modesto. In 1895, the City purchased the Modesto Water Company, and in subsequent years purchased other local water systems that have been incorporated in the present City Water Utility System.

In April 1992, the City entered into the original Treatment and Delivery Agreement with the District and Del Este, providing for a supply of treated water for the City and Del Este from the District’s Domestic Water Project. See “– Sources of Water” below. In July 1995, the City purchased substantially all of the assets and liabilities of Del Este, the last private water company within City limits. The acquisition included Del Este’s other water service areas, including the communities of Salida, Waterford, Empire, Hickman, Grayson, and parts of Turlock, Ceres and Del Rio Estates. As a consequence of the varying operating conditions among these communities, the City initially operated the City Water Utility System in three separate zones. However, the three zones were essentially merged into a single zone for rate purposes when the City Council of the City (the “City Council”) adopted a new rate structure that went into effect on January 1, 2005. On October 11, 2005, the original agreement was amended and restated to include the Phase Two Expansion project.

In general terms, the City's total water service area consists of one large contiguous area and several outlying, non-contiguous service areas. The contiguous water area includes all of the property currently within the corporate boundaries of the City as well as the property located within its sphere of influence and properties located within the communities of Ceres, Empire and Salida. There are five outlying non-contiguous water service areas. They are the communities of Del Rio, Grayson, Hickman and Waterford, as well as portions of the City of Turlock.

A map showing the City's water service area appears on the following page.

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Existing Facilities

The principal facilities of the existing City Water Utility System consist of 110 domestic wells (96 of which are currently active), over 900 miles of mains, nine storage tanks, the District's Domestic Water Project and a terminal storage area serving surface water and/or groundwater to its customers through nearly 77,000 water connections.

The District surface water is treated at the Domestic Water Project and conveyed to the City via transmission mains for direct use in the contiguous portion of the City's water service area. The City's facilities are designed to deliver both surface water and groundwater. The Domestic Water Project does not provide surface water to the outlying portions of the City's water service areas including those portions that are outside of the District's authorized service boundaries, which are served through groundwater wells.

Groundwater is pumped directly from the wells into the distribution system, which consists of 900 miles of water mains and pipelines. Most of the larger water mains are 10- and 12-inch diameter pipelines which have been installed by the City. The installation of smaller pipelines in subdivisions is typically the responsibility of the subdivider. Nine ground level tanks and booster pump stations provide storage capacities ranging from 500,000 to 4,000,000 gallons each.

The following table sets forth statistical information relating to the City Water Utility System during the calendar years shown.

CITY WATER UTILITY SYSTEM STATISTICS (Calendar Years 2008 through 2012)

	2008	2009	2010	2011	2012
Number of Service Accounts	76,852	76,899	76,508	76,983	76,788
Total Water Production (MG) ⁽¹⁾	25,182	23,824	21,712	20,892	21,765
Capacity (MGD) ⁽²⁾	166.0	166.0	166.0	166.0	175.2
Peak Daily Distribution (MGD)	116.5	113.0	110.0	98.5	97.2
Average Daily Distribution (MGD)	68.8	65.3	59.5	57.2	59.5

⁽¹⁾ "MG" means million gallons.

⁽²⁾ "MGD" means million gallons daily.

Source: City of Modesto

During the five year period covered by the table the City's population grew by approximately 0.94% while the aggregate volume of water sold declined by approximately 15.7%. Thus, on a per capita basis, consumption of water in the City's service area has been reduced over the course of this period. This reduction has been the result of many variables including metering, water conservation efforts, weather, system repairs, economic conditions, more efficient water consumption by customers and the availability of alternative water sources (onsite private wells).

Sources of Water

The City's primary sources of water supply are surface water provided by the District under the Treatment and Delivery Agreement and its local groundwater sources. The Domestic Water Project serves as the baseline supply, and seasonal demands are served by the groundwater wells. In general, the Domestic Water Project currently supplies approximately 55% of the City's water requirement during the winter and 40% thereof during the summer season. Groundwater supplies the remainder. The Phase Two Expansion project is expected to increase the nominal capacity of the Domestic Water Project from 36

MGD to 60 MGD with a peak capacity of 72 MGD. For a discussion of the Treatment and Delivery Agreement, see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement” and “THE DOMESTIC WATER PROJECT – The Treatment and Delivery Agreement.”

The following table sets forth the total water production for the City Water Utility System during the calendar years shown.

**CITY WATER UTILITY SYSTEM
Service Area Total Production (Billion Gallons)
(Calendar Years 2008 to 2012)**

Year Ending December 31	Well Water	Treated Water	Total
2008	14.74	10.44	25.18
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76

Source: City of Modesto

Outside of the City corporate limits there are no regulations controlling the number of water wells that are drilled or the quantity of water pumped from such wells. Prior to the availability of surface water from the Domestic Water Project, the groundwater pumpage had been increasing and water levels had been declining since the early 1950’s. As a result thereof, the groundwater resources of the City Water Utility System were subject to long-term overdraft, *i.e.*, the depletion of the water table was greater than the replenishment, of an average of 3,000 acre-feet per year. With the introduction of surface water from the Domestic Water Project, this long-term overdraft was halted, and the City’s dependency upon groundwater was reduced. The City expects that the expansion of the Domestic Water Project and the installation of the various capital projects associated therewith will further reduce its reliance on groundwater supplies.

Water Quality

Land use in the vicinity of the City is a mixture of rural, residential, agricultural, commercial and industrial uses. Potential sanitary hazards include the percolation of agricultural chemicals and fertilizers in adjacent fields and underground storage of fuels in single contained tanks. All wells are adequately located away from sewer lines and sewage disposal facilities. Above-ground on-site fuel storage tanks are or will be provided with a containment system.

Historically, the overall well system has not required major treatment facilities to deliver potable water supplies to date. However, over the past ten years, the number of natural and man-made contaminants which the City is required to monitor has increased from 22 to 98 and there have been significant changes in the maximum contaminant levels permitted under regulations adopted by federal and State regulatory agencies. As a result, concerns over water quality have necessitated the closure of wells with poor water quality and has led to the requirement for treatment of several groundwater wells. The City has commenced litigation to protect, and/or to recover damages to, its groundwater supplies. See “– DBCP Settlement Agreement” and “– PCE Litigation” below.

The operation of the wells is performed automatically in response to system pressure and reservoir water level. All wells are monitored in accordance with State water quality monitoring

regulations. Samples are collected for general physical, general mineral, inorganic chemical, radioactivity and organic chemical analysis. Additional monitoring is conducted for bacteriological and general mineral analysis on a routine basis. Bacteriological quality of the groundwater sources is generally good. Follow-up samples on positive total coliform test results are generally negative.

In addition to water wells as a domestic supply source, the City manages approximately 9,500 rock wells for the drainage of stormwater. Stormwater runoff occurs when rainfall intensity exceeds the infiltration rate of the soil. Suspended solids, heavy metals, and oil and grease are the major types of pollutants conveyed by runoff water to drainage facilities. The pollutant loading in runoff typically increases with increased urbanization. About 70 percent of the City service area employs rock wells which vary in depth from 25 to 50 feet. As a precaution to any risk of pollutants from stormwater and other wastewater entering the rock wells and percolating into the usable groundwater aquifer, the City seals its water wells at appropriate depths in relation to rock wells. After 40 years of operation of rock wells, no pollutants attributable to urban drainage have been detected in the drinking water supply. Recent studies of the federal Environmental Protection Agency conclude that properly operated rock wells provide significant treatment and removal of pollutants from percolating water.

DBCP Settlement Agreement

In January 1997, the City reached a settlement in litigation with certain defendants who are the manufacturers and distributors of dibromochloropropane (“DBCP”), which was impacting the drinking water quality throughout the combined City and former Del Este water systems. The settlement agreement (the “Settlement Agreement”) compensated the City for past expenses related to complying with drinking water standards and providing well-head treatment. The Settlement Agreement and the damage recovery covers the City’s entire current and projected service area over the 40 years following the execution of the Settlement Agreement. The Settlement Agreement provides a formula by which the majority of future capital and operating expenses for DBCP mitigation will be compensated by the defendants. The Settlement Agreement includes cost escalation indexes and requires that these payments be used in the area where the damage occurs, as a protection for the defendants against possible Del Este ratepayer actions. The Settlement Agreement puts a variety of operating obligations on the City to ensure that the contamination is managed economically and in compliance with applicable regulations.

The annual proceeds from the Settlement Agreement are included in the Historical Operating Results and the anticipated annual proceeds are included in the Projected Operating Results of the City Water Utility System described below. For operating costs, the City receives a specified amount for each well which is receiving well head treatment for DBCP, escalated annually by the Producer Price Index (“PPI”). For each additional or new well requiring GAC equipment, 90% of the capital costs, escalated by the PPI, will be compensated. The actual amount will depend on the type of GAC unit needed for the specific well. The process for compensation provides that the City file an annual claim with the trustee for operation and maintenance and capital costs for the preceding year. The defendants are required to maintain a certain balance in the trustee account, the balance declining over the 40 year life of the Settlement Agreement. The City is responsible for any difference between actual operating and capital expense and the stipulated compensation formula. Any shortfall would then be covered by the City through appropriate action, including without limitation a rate adjustment to assure compliance with the covenants in the Settlement Agreement.

Water supplied to customers by the City has and continues to meet all federal and State requirements for quality standards. The City has in place a program to monitor and evaluate proposed regulatory water quality standards. The City anticipates that it will be able to meet increasingly stringent water standards.

PCE Litigation

The City of Modesto Redevelopment Agency (now the City of Modesto, as successor agency) brought an action in 1998 against numerous defendants, alleging causes of action for strict liability, negligence, negligence per se, continuing trespass, private and public nuisance, private and public nuisance per se, response costs and declaratory relief under the Carpenter-Presley-Tanner Hazardous Substance Account Act (Health & Safety Code Section 25300 et seq.), ultrahazardous activity, and cost recovery under the Polanco Redevelopment Act (Health & Safety Code Section 33459 *et seq.*) (San Francisco County Superior Court Case No. 999345). Simultaneously with the filing of that action, the City, along with the City of Modesto Sewer District No. 1, brought another action against a nearly identical group of defendants seeking damages for solvent contamination under many of the same legal theories; but this action did not include a Polanco Redevelopment Act cause of action (San Francisco County Superior Court Case No. 999643). The defendants included chlorinated solvent manufacturers, distributors of solvents and dry cleaning equipment, chlorinated solvent equipment manufacturers, and dry cleaning retailers.

The complaints alleged that two cleaning solvents, perchloroethylene (“PERC” or “PCE”) and trichloroethylene, cause risks to health and the environment, that dry cleaners customarily dumped solvent wastewater into the public sewer systems, and that dry cleaners experienced a habitual problem of chlorinated solvents leaking into the environment. According to the complaints, the defendants who manufactured and supplied solvents and equipment instructed dry cleaners that chlorinated solvents could be discharged into sewers and/or failed to issue recalls or warnings regarding the equipment and solvents.

The plaintiffs tried five “bellweather” suits before a jury from February to June of 2006, and won a verdict for compensatory damages of \$3.1 million and a verdict for punitive damages of \$175 million, later lowered to \$12 million. In October of 2007, the plaintiffs reached an agreement with one of the defendants, Vulcan Materials Company (“Vulcan”), pursuant to which Vulcan agreed to pay the plaintiffs \$20 million to settle the actions pending against Vulcan. The City’s water system and its sewer system were each credited with half of the net amount of the settlement after payment of litigation fees and expenses and certain other costs (approximately \$6.5 million each), but the money may be expended only for projects that will remediate PCE. Trials against the remaining defendants have occurred. Plaintiffs were awarded compensatory damages (which were offset by prior settlements which were adjudged to operate as credits against the damages), as well as certain punitive damages. Plaintiffs, defendants and cross-defendants in these actions have appealed the judgment. The City is unable to predict the outcome of these appeals. The City has estimated its potential cost exposure, depending on the outcome of the pending appeals, could range from \$0 to approximately \$4.08 million.

Employees

The Public Works Director has primary responsibility for the management of the City Water Utility System, as well as for the sewer system, solid waste system, streets and storm drains. The City Water Utility System currently has 125 full-time employees. Employees are represented by the Modesto City Employees Association and by the Modesto Confidential and Management Association, each of whose current Memorandum of Understanding expires on September 23, 2013.

Retirement Programs

All permanent full time employees of the City are covered under the Public Employees’ Retirement System of the State of California (“PERS”), a defined benefit plan. PERS is an agent multiple employer public employee retirement program that acts as a common investment and administrative agent for participating entities in California. Pension costs are funded by monthly contributions from employees and from employer contributions by the City. Required contributions for the City during fiscal

year 2011-12 were \$13,183,647, of which \$976,844 was allocated to the City Water Utility System. Budgeted contributions for fiscal year 2012-13 were \$14,793,213, of which \$1,252,331 was allocated to the City Water Utility System. Budgeted contributions for fiscal year 2013-14 are \$11,784,396, of which \$859,595 is allocated to the City Water Utility System. The fiscal year 2013-14 PERS budgeted contributions are lower than in previous years due to the employees paying some or all of the employee contribution. The City-wide budgeted PERS and OPEB contributions for fiscal year 2013-14 represent 4% and 0.3%, respectively, of the City's fiscal year 2013-14 operating budget of \$289,378,344.

As of July 1, 2013, employee contributions for participants in the City's "Miscellaneous Plan" with PERS, which includes City Water Utility System employees, were 7% of annual covered salary. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The current rate is 12.781% of the annual covered payroll for Miscellaneous Plan employees and 32.91% for Safety Plan employees. The City Water Utility System does not contribute any money towards PERS for Safety Plan employees.

As of June 30, 2011 (the latest data available), the City's Entry Age Actuarial Accrued Liability for its PERS Miscellaneous Plan employees (which includes employees of the City Water Utility System) was \$343,774,527 and the actuarial value of plan assets was \$306,459,646, resulting in an Unfunded Actuarial Accrued Liability of \$37,314,881 and a funded ratio of 89.1%. The portion of the plan's assets allocable to the City Water Utility System employees, which is part of the City's liability pool, has not been separately calculated.

The California Public Employees' Pension Reform Act of 2012 ("PEPRA") enacted statewide pension reforms for state and local public retirement systems effective January 1, 2013. The impacts of the PEPRA primarily apply to employees first hired by a public agency or after January 1, 2013. Some of these provisions include certain limits on the amount and types of compensation that may be included by a retirement system in calculating pension benefits, the imposition of new formulas for the calculation of pension benefits for employees, certain requirements for the sharing of the costs of pension benefits by employees, and certain limitations on the adoption of new defined benefit plans. The PEPRA prohibits certain retroactive enhancements to pension benefit formulas for all employees, imposes certain limits on subsequent employment for retired employees, prohibits the purchase of non-qualified permissive service credit by all employees after January 1, 2013, and requires for any employee the forfeiture of pension and retirement-related benefits for certain felony convictions.

In addition to the pension benefit plan described above, the City also maintains a program providing "other post-employment benefits" ("OPEB") for its employees. The City's funding policy for the OPEB Plan is to fund benefits on a pay-as-you-go basis. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to pre-fund benefits as determined annually by the City Council. The City is currently funding approximately 25% of the current cost of annual benefits. The City has created an internal service fund to track the OPEB liability, annual expenses and revenues and has been disclosing its liability for OPEB in its Comprehensive Annual Financial Statements for more than 10 years. The City has set aside \$12,002,745 of Employee Benefits Management Internal Service Fund cash and investment to be used to fund its OPEB benefits. Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Since the City's Internal Service Fund does not meet this requirement, the assets have been excluded from the actuarial calculations. As of June 30, 2010 (the latest data available), the Entry Age Actuarial Accrued Liability for OPEB was \$104,399,231.

Additional information regarding the City’s retirement plans and other post-employment benefits can be found in the City’s comprehensive annual financial reports, which may be obtained at <http://www.ci.modesto.ca.us/fin/financials/>.

Insurance

The City is exposed to various risks of loss related to torts, damage to and loss of assets, errors and omissions, injuries to and illness of employees, and natural disasters. The City maintains an Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim shown: workers’ compensation - \$500,000; liability - \$1,000,000; and dental care - \$1,200. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts. For liability claims the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$5,000,000. Commercial insurance covers claims over \$5,000,000 up to an additional \$35,000,000 per claim.

The City currently maintains insurance against damage to the City Water Utility System. Coverage thereunder is currently \$12,700,000, but damage resulting from earthquakes is not covered.

Service Area and Customers

The water service area of the City Water Utility System is within the metropolitan area of the City, located in the central portion of Stanislaus County, consisting of approximately 36 square miles, as well as the communities of Salida, Waterford, Empire, Hickman, Grayson, and portions of Turlock, Ceres and Del Rio Estates.

The following tables set forth the revenues for the periods indicated and the ten largest water customers of the City Water Utility System in terms of total water sales and total billings for the fiscal year ended June 30, 2012. During calendar year 2012, the City Water Utility System delivered approximately 21.76 billion gallons of water to an average of approximately 77,000 customers. Residential accounts (single family as well as multi-family accounts) represent approximately 92% of the City’s water consumption and water sales revenues. Commercial, industrial and municipal accounts represent approximately 8% of the City’s water consumption and water sales revenues. The City’s ten largest customers represented approximately 8.60% of total water sales revenues in fiscal year 2011-12.

CITY WATER UTILITY SYSTEM

Sale of Water (Fiscal Year Ended June 30)

	2008	2009	2010	2011	2012
Revenues (\$000)					
Residential (Flat Rates) ⁽¹⁾	\$31,495	\$30,585	\$21,257	\$16,889	\$14,465
Residential, Commercial, Industrial (Metered)	17,890	20,445	28,758	33,190	37,163
Total ⁽²⁾	\$49,385	\$51,031	\$50,015	\$50,079	\$51,628

⁽¹⁾ The decline in residential flat rate revenues reflects the City’s transition to metered residential service. See “– Water Charges and Billing” below.

⁽²⁾ Totals may not add due to rounding.

Source: City of Modesto

**CITY WATER UTILITY SYSTEM
Ten Largest Customers
(Fiscal Year ended June 30, 2012)**

Customer	Business Type	Water Sales Revenues	% of Total Water Sales Revenues	Water Usage (ccf) ⁽¹⁾	% of Total Usage
Grover Landscaping ⁽²⁾	Landscaping	\$ 821,553	1.59%	439,042	1.51%
Modesto City Schools	Education	687,746	1.33	419,776	1.44
Signature Fruits Co. LLC	Cannery	576,841	1.12	421,718	1.45
Stanislaus Food Products	Cannery	535,620	1.04	381,935	1.31
Foster Farms	Dairy Processor	469,501	0.91	347,255	1.19
Stanislaus County Housing Authority	Government	307,522	0.60	178,618	0.61
E & J Gallo	Winery	302,684	0.59	206,891	0.71
Modesto Irrigation District	Public Agency	296,832	0.57	197,659	0.68
Stanislaus County Building Maintenance	County Offices	220,019	0.43	109,988	0.38
Yosemite Community College District	Education	213,886	0.41	131,126	0.45
Top Ten Total		\$ 4,432,204	8.60%	2,834,008	9.74%
Total Flat/Metered Revenues		\$51,627,550			

⁽¹⁾ “ccf” means hundred cubic feet.

⁽²⁾ Under contract for maintenance of City parks, the water charges incurred are passed on to the City of Modesto for reimbursement.
Source: City of Modesto

Water Charges and Billing

Water Service Rates. Water rates are fixed by the City Council and are not subject to regulation by the California Public Utility Commission (“CPUC”) or any other State or federal agency. Customer service charges for residential accounts were historically generally based on a flat monthly service charge, which varied only based on the size of the lot and in which of three zones the lot was located. However, under a rate structure which went into effect on January 1, 2005, a uniform rate for each applicable lot size was established for all three zones. See “– Rate Setting Process” below for a discussion of the process followed by the City in implementing such rate structure.

Historically, the City had not metered water use by its single family residential customers; however, since 1992 all new construction has been equipped with a meter; and those single family residential properties that are equipped with water meters that are read for billing purposes are charged the metered water rate. Pursuant to State legislation, the City will be required to install meters and to read and bill for water service based on metered rates by 2025. The City Council has adopted a metering plan schedule pursuant to which those requirements would be satisfied by 2022; and, in connection therewith, the City Council has approved contracts with Automatic Meter Reading in order to provide the most cost efficient and manner of implementing its plan. The City is approximately 75% complete with its metering plan.

Multifamily residential units are currently metered. Each commercial account pays a monthly service charge and a volume charge per hundred cubic feet (“ccf”) of water delivered. All regular customers are liable for service charges unless service is permanently discontinued. In addition, all new regular water service connections, increases in meter sizes, and the connection of additional dwelling units to existing services require the payment of a connection fee.

As noted above, the City Council established a revised rate structure that went into effect on January 1, 2005. The revised rate structure established a single service area, combining all of its three prior water zones into a single zone. The current rates include a uniform volume-based charge reflecting the volume of water consumed. Residential metered and flat rates are designed so that monthly bills for these types of customers will be comparable where water consumption is estimated to be comparable. Residential flat rates are standardized by lot size (previously, the size ranges varied between water zones) based upon the number of parcels in each range and patterns of water use.

In addition to the revised rate structure, the City Council also approved a series of uniform rate increases of 20% effective July 1, 2005, 15% effective July 1, 2006, 5% effective July 1, 2007 and 5% effective July 1, 2008. On each subsequent July 1, commencing July 1, 2009 rates are have been and are authorized to be adjusted in the future to reflect increases in the Consumer Price Index (“CPI”).

The table below sets forth the adopted single family residential flat rates approved for the five fiscal years through fiscal year 2013-14.

**CITY WATER UTILITY SYSTEM
Monthly Single Family Residential Flat Water Rates⁽¹⁾**

Lot Size	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013
0-5,000 sq. ft. lot	\$37.23	\$37.23	\$38.01	\$38.69	\$39.89	\$40.81
5,001-7,000 sq. ft. lot	42.31	42.31	43.20	43.98	45.34	46.38
7,001-11,000 sq. ft. lot	50.21	50.21	51.26	52.18	53.80	55.04
11,001-17,000 sq. ft. lot	53.30	53.30	54.42	55.40	57.12	58.43
Over 17,000 sq. ft. lot	62.66	62.66	63.98	65.13	67.15	68.69

⁽¹⁾ Single family residential properties with water meters that are read for billing purposes, are charged the metered water rate.
Source: City of Modesto.

The following table sets forth the adopted monthly service charge and volume charge for metered residential and commercial accounts through fiscal year 2013-14.

**CITY WATER UTILITY SYSTEM
Water Rates and Charges
Metered Residential and Commercial Accounts**

	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013
Volume-based Rate (\$/hcf)	\$ 1.28	\$ 1.28	\$ 1.33	\$ 1.33	\$ 1.37	\$ 1.40
Fixed Monthly Meter Charge (in addition to volume-based charges)						
5/8" - 3/4" meter	13.71	13.71	14.00	14.25	14.69	15.03
1" meter	19.45	19.45	19.86	20.22	20.85	21.33
1-1/2" meter	33.66	33.66	34.37	34.99	36.07	36.90
2" meter	50.79	50.79	51.86	52.79	54.43	55.68
3" meter	96.51	96.51	98.54	100.31	103.42	105.80
4" meter	147.88	147.88	150.99	153.71	158.48	162.13
6" meter	290.51	290.51	296.61	301.95	311.31	318.47
8" meter	461.75	461.75	471.45	479.94	494.82	506.20
10" meter	661.58	661.58	675.47	687.63	708.95	725.26
12" meter	1,232.31	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92

Source: City of Modesto.

The City water rates set forth in the two preceding tables reflect rate adjustments based upon increase in the CPI as set forth below.

**CITY WATER UTILITY SYSTEM
Water Rates and Charges
Historical Rate Increases**

<u>Effective Date</u>	<u>CPI Rate Increase</u>
November 1, 2010	2.1%
July 1, 2011	1.8
July 1, 2012	3.1
July 1, 2013	2.3

Source: City of Modesto.

The following table sets forth connection fees for all users except multi-family units by meter size for fiscal year 2013-14.

**CITY WATER UTILITY SYSTEM
Connection Fees for All Users
Except Multiple Family Units
(Fiscal Year 2013-14)**

<u>Meter Size</u>	<u>Connection Fees</u>
5/8"	\$ 2,175
1"	5,436
1-1/2"	10,873
2"	17,395
3"	34,789
4"	54,359
6"	108,717
8"	173,947
10"	250,049
12" or larger	467,482

Source: City of Modesto.

Comparison of Rates and Charges. The following table lists certain water suppliers in the Modesto region and their average monthly residential water service charges.

CITY WATER UTILITY SYSTEM
Comparison of
Average Monthly Water Rates
Flat Rate (1" Service)
As of June 30, 2012⁽¹⁾

City	Flat Rate Typical Home
Modesto	\$43.98
Stockton	67.30
Tracy	56.65
Turlock	31.50
Lodi	41.99
Fresno	22.57

⁽¹⁾ Most current information readily available to the City. Modesto rate reflects fiscal year 2011-12 rates.
Source: City of Modesto.

The City's water rates reflect the steps the City has taken to assure a long-term water supply by entering into the regional water management partnership with the District. The rates of the other nearby cities reflect the particular circumstances of each city's water system, such as the degree to which it relies on groundwater or surface water. The rates also reflect their specific circumstances with regard to the cost of current and prospective water supplies.

Rate Setting Process. In connection with its consideration of the revised water rate structure which took effect on January 1, 2005, the City Council followed a process which it believes satisfies the requirements of Article XIID of the California Constitution. See "– Certain Limitations on City Imposition of City Water Utility System Fees and Charges" below. Specifically, by October 8, 2004, nearly 75,000 notices of the proposed increase in water rates had been mailed to the owners of record of the parcels within the City's water service area. The notices advised property owners of their right to file written protests to the proposed increase and of a public hearing, set for November 23, 2004, at which such protests would be considered. The number of protests received prior to the completion of the November 23, 2004 public hearing was 8,856, far less than the majority required in order to prevent the implementation of the proposed rate increase. Following the completion of the public hearing, the City Council proceeded to adopt the rate increase as described above. See "– *Water Service Rates*" above.

Challenges to Rates. The 2005-2006 Stanislaus County Civil Grand Jury received complaints from Del Rio, an outlying community that receives its water from the City's Water Utility System. Del Rio is a wealthy area which includes homes on large lots that had previously received flat rate water. Part of the City's revised rate structure (see "– *Water Service Rates*" above) required metering rates for Del Rio, which had the effect of accentuating the accompanying rate hikes. However, the Civil Grand Jury found no evidence to support Del Rio's contention that the City's Proposition 218 notice informing the public of the revised rate schedule was inadequate. Del Rio also charged that the City's water rate policy violated a Proposition 218 requirement that a parcel be charged only its proportional costs. The Civil Grand Jury concluded there is no difference in the rate structure between Del Rio and the rest of the City's water customers that are billed a metered rate; and the Civil Grand Jury made no recommendation regarding the proportionality issues. Del Rio further charged that there was a misuse of funds by using water collections for purposes other than water. While it did make study recommendations, the Civil Grand Jury ultimately determined that the City is accounting for water costs and revenues separately from non-water related accounts. Del Rio's last charge was that unfairness in the rate process led to Del Rio paying more than other water customers. The Civil Grand Jury could not substantiate this charge, but rather made study recommendations regarding actual customer costs between metered and flat rates, and a

further recommendation that conversion from flat to metered rates occur as quickly as possible. The City is continuing its city-wide meter installation program that was begun several years ago with the intent of having every service location on a metered billing by the year 2022.

Delinquencies

The City's municipal water department has historically accounted for water system revenues on a full accrual basis. The City has developed procedures for handling delinquent accounts. There has not generally been a significant delinquency problem. The threatened suspension of water delivery is normally sufficient incentive to induce customers to make payment on their billings. In addition, the City customers may have tax liens placed on their property when water bills are delinquent. Uncollectible accounts have historically been less than 1% of revenues and remain at that level. The City staff monitored delinquencies closely during the recent period of high foreclosures. Liens have been filed against many delinquent properties to provide greater leverage in the recovery and collection process.

Outstanding Long-Term Obligations

As of June 30, 2013, the City had outstanding \$45.86 million aggregate principal amount of 2008 City Certificates evidencing and representing the interests of the owners thereof in installment payments to be made by the City under the Master Contract for the purpose of financing certain improvements to the City Water Utility System. In connection with the 2008 City Certificates, which are variable rate certificates of participation, the City has entered into the 2008 City Swap Agreement, as well as a reimbursement agreement with a bank to provide credit and liquidity support in the form of a letter of credit for such variable rate certificates of participation. The City's obligations under the 2008 City Swap Agreement to make scheduled payments and certain termination payments (but only if such termination payments are insured pursuant to the Swap Policy), as well as the City's obligation to make payments under the related insurance and reimbursement agreements if any amounts which have drawn thereunder have not been reimbursed by the City, are payable on a parity with the City's obligations to make installment payments relating to the 2008 City Certificates, to make Debt Service Payments under the Treatment and Delivery Agreement relating to the outstanding Series 2007 Water Bonds (including regularly scheduled payments due under the Domestic Water Swap Agreement) and the Series 2013 Water Bonds, and to make payments with respect to the other City Parity Obligations described herein. The City's obligations to make termination payments under the 2008 City Swap Agreement which are not insured and its obligations to pay amounts under the Treatment and Delivery Agreement relating to termination payments due under the Domestic Water Swap Agreement are payable on a subordinate basis.

As of June 30, 2013, the City also had outstanding three long-term loans payable from City Gross Water Revenues: (i) the CDWR Loan in the outstanding principal amount of \$631,373, (ii) the ARRA Water Grant, the maximum loan amount under which is \$800,000, of which 50% or an estimated \$400,000 will not need to be repaid as described herein, and (iii) the MID Advance in the aggregate outstanding principal amount of \$3,434,339 to be repaid with interest in annual installments, with the final installment due no later than July 31, 2014. The CDWR Loan and the ARRA Water Grant constitute City Parity Obligations payable on a parity with the City's obligations to make installment payments relating to the 2008 City Certificates, to make Debt Service Payments under the Treatment and Delivery Agreement relating to the outstanding Series 2007 Water Bonds (including regularly scheduled payments due under the Domestic Water Swap Agreement) and the Series 2013 Water Bonds, and to make payments with respect to the other City Parity Obligations described herein. The Memorandum of Understanding relating to the advance from the District is silent with respect to the payment priority of the City's obligations thereunder. The MID Advance is being repaid as an operating expense of the City Water Utility System (consistent with other payments under the Treatment and Delivery Agreement not constituting Debt Service).

See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Additional Encumbrances of City Gross Water Revenues.*”

Historical Operating Results

The following table summarizes operating revenues, operating expenses and net income of the City Water Utility System for the five fiscal years 2007-08 through 2011-2012. The information for the four fiscal years ended June 30, 2012 was prepared by the City on the basis of its audited financial statements.

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CITY WATER UTILITY SYSTEM
Historical Debt Service Coverage⁽¹⁾

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
GROSS OPERATING REVENUES					
Charges for services	\$52,927,134	\$52,990,138	\$51,572,801	\$51,876,505	\$53,453,708
Connection charges	1,943,456	1,113,082	647,579	452,021	516,839
Refunds, Damages & Recoveries	232,570	29,033	428,083	460,766	166,522
Interest and Rental Income	1,984,517	2,055,531	1,006,611	588,917	670,046
Draw from (Deposit to) Rate Stabilization Fund	--	--	--	--	--
Service Credits ⁽²⁾	604,082	501,671	2,170,367	2,562,986	2,966,465
Miscellaneous	13,190	32,586	25,782	58,083	118,203
TOTAL GROSS OPERATING REVENUES	\$57,704,949	\$56,722,041	\$55,851,223	\$55,999,278	\$57,891,783
OPERATING EXPENSES:					
Total operating expenses ⁽³⁾	\$23,664,217	\$28,359,392	\$30,219,002	\$26,638,348	\$30,755,822
Operating transfers	65,000	482,503	765,000	776,000	1,257,406
CIP expenses moved to operating ⁽¹⁾	2,156,833	3,054,407	1,127,185	--	--
TOTAL OPERATING EXPENSES	\$25,886,050	\$31,896,302	\$32,111,187	\$27,414,348	\$32,013,228
NET OPERATING REVENUES	\$31,818,899	\$24,825,739	\$23,740,036	\$28,584,930	\$25,878,555
TOTAL DEBT SERVICE:					
Revenue obligations:					
1997 Certificates of Participation ⁽⁸⁾	\$ 1,791,930	\$ 1,792,258	\$ 1,794,688	\$ 1,797,013	--
2006 Certificates of Participation ⁽⁹⁾	1,982,256	--	--	--	--
2008 Certificates of Participation ⁽⁹⁾	--	2,262,117	2,145,966	2,271,034	\$ 2,684,462
Treatment & Delivery Agreement Debt Service ⁽¹⁰⁾	6,681,894	6,672,406	7,455,918	10,794,041	10,888,790
CDWR Loan	264,719	263,079	264,719	264,719	255,942
ARRA Grant	--	--	--	--	5,137
TOTAL DEBT SERVICE	\$10,720,799	\$10,989,860	\$11,661,291	\$15,126,807	\$13,834,331
DEBT SERVICE COVERAGE					
(Net Operating Revenues/Total Debt Service)	2.97	2.26	2.04	1.89	1.87

(1) Calculated in conformity with the legal documents pursuant to which the City's outstanding long-term obligations have been issued.

(2) Service credits are reimbursements from other City funds of costs associated with employee time worked on other projects. In Fiscal Year 2010, Cashiering, Utilities and Collections division which was previously accounted for in the City General Fund was moved into the Water Fund. This caused a structural change and an increase in service credits.

(3) Beginning in Fiscal Year 2009, total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration. Includes Treatment and Delivery Agreement costs other than Debt Service.

(4) Operating transfers in Fiscal Year 2009 increased due to an administrative oversight and funds were returned to the correct fund.

(5) Includes operating transfers for building rental fee of \$65,0000 annually and commencing with Fiscal Year 2010, \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In Fiscal Year 2012, includes a one-time \$668,610 transfer for IT ISF for the Water Fund's one time contribution to the City's new financial system.

(6) In Fiscal Year 2010, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. The prior period adjustment has been reflected in this table in the years costs were incurred.

(7) Total operating expenses excludes deprivation and amortization, as well as the debt service component under the Treatment and Delivery Agreement.

(8) 1997 Certificates of Participation were prepaid in full in Fiscal Year 2011.

(9) 2006 Certificates of Participation were refunded in full by the 2008 City Certificates.

(10) Debt service payment increased by \$4.1 million in Fiscal Year 2011 due to end of capitalized interest.

Source: City of Modesto.

City Water Utility System Financial Management Policies

The City has detailed financial management policies that include guidelines for debt, capital planning, investments, debt service coverage and formal reserves. It is the current policy of the City to maintain working capital reserves equal to 90 days of operation and maintenance expenses of the City Water Utility System. It is also the current policy of the City to seek to maintain a debt service coverage ratio of 1.5 times on its outstanding long-term obligations secured by a pledge of City Gross Water Revenues, including its obligations for the payment of Debt Service under the Treatment and Delivery Agreement and the other outstanding City Parity Obligations. The City Rate Covenant in the Treatment and Delivery Agreement requires a debt service coverage ratio of 1.25 times. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – City Rate Covenant.”

Capital Improvement Program

The capital improvement program of the City for the City Water Utility System for fiscal years 2013-14 through 2017-18 includes budgeted or planned programs and projects expected to be funded by the City from annual revenues. The City estimates its capital expenditures were approximately \$7.8 million in fiscal year 2012-13 for the planning, design and construction of 34 different capital improvement projects for the City Water Utility System. These projects included a variety of new and replacement water infrastructure items, including tanks, pump stations, wells, wellhead treatment improvements and pipelines.

Planned future projects include new wells, wellhead treatment, storage tanks, booster pumps, water main extensions and pump replacements. Total capital expenditures for fiscal years 2013-14 through 2017-18 are estimated to be approximately \$80.6 million.

The City’s capital improvement program is a 10-year plan revised annually. Consequently, projects planned for future years may be cancelled, and new projects not presently anticipated may be undertaken. To the extent that total funds required exceed cash available, the City expects that the projects will either be funded by bond proceeds or deferred or terminated.

Summary of Projected Operating Results of the City Water Utility System

The City has prepared the following table of projections of operating results of the City Water Utility System for the fiscal years ending June 30, 2013 through 2017. Projected operating results for the recently ended Fiscal Year 2013 are based upon budgeted numbers as actual data for the fiscal year is not yet available. The projected amounts for future years set forth below are based on certain assumptions made by the City reflected in the footnotes to the table. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary from those set forth herein.

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CITY WATER UTILITY SYSTEM
Projected Operating Results⁽¹⁾

	Fiscal Year 2013 ⁽⁸⁾	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
GROSS OPERATING REVENUES						
Charges for services ⁽²⁾	\$54,810,773	\$56,071,420	\$57,192,849	\$58,336,706	\$59,503,440	\$60,693,509
Connection charges	331,001	331,001	331,001	331,001	331,001	331,000
Refunds, Damages & Recoveries	--	5,000	--	--	--	--
Interest and Rental Income	421,266	299,560	225,110	174,307	174,973	175,652
Draw from (Deposit to) Rate Stabilization Fund	--	--	--	--	--	--
Service credits	2,980,463	2,124,471	2,124,471	2,145,716	2,167,173	2,188,845
Miscellaneous	110,461	112,670	114,924	117,222	119,567	121,958
GF (Parks Loan) P/I ⁽³⁾	53,500	53,000	52,500	52,000	52,000	52,000
TOTAL GROSS OPERATING REVENUES	\$58,707,464	\$58,997,122	\$60,040,854	\$61,156,950	\$62,348,152	\$63,562,964
OPERATING EXPENSES:						
Total operating expenses ⁽⁴⁾	\$37,342,820	\$36,851,408	\$36,777,041	\$38,056,723	\$39,564,392	\$41,132,367
Operating Transfers	765,000	765,000	765,000	765,000	765,000	765,000
TOTAL OPERATING EXPENSES⁽⁵⁾	\$38,107,820	\$37,616,408	\$37,542,041	\$38,821,723	\$40,329,392	\$41,897,367
NET OPERATING REVENUES	\$20,599,644	\$21,380,714	\$22,498,813	\$22,335,228	\$22,018,760	\$21,665,597
TOTAL DEBT SERVICE:						
Revenue obligations:						
2008 Certificates of Participation ⁽⁶⁾ Treatment & Delivery Agreement Debt Service ⁽⁷⁾	\$ 2,632,225	\$ 2,619,139	\$ 2,835,077	\$ 2,835,077	\$ 2,835,077	\$ 2,835,077
CDWR Loan	10,789,791	10,788,307	10,778,701	10,767,819	10,768,184	10,759,434
ARRA Grant	264,719	264,719	264,719	264,719	132,359	--
	36,289	36,289	36,289	36,289	36,289	36,289
TOTAL DEBT SERVICE	\$13,723,024	\$13,698,454	\$13,914,786	\$13,903,904	\$13,771,909	\$13,630,800
DEBT SERVICE COVERAGE						
(Net Operating Revenues/Total Debt Service)	1.50	1.56	1.62	1.61	1.60	1.59

⁽¹⁾ Totals may not add due to rounding. Calculated in conformity with the legal documents pursuant to which the City's outstanding long-term obligations have been issued.

⁽²⁾ Revenues include a Consumer Price Index (CPI) increase in 2013 of 3.1% and of 2.3% in 2014. Assumes a 2% annual CPI increase not yet approved in Fiscal Years 2015 through 2018.

⁽³⁾ The Water Fund made a \$350,000 loan to the Parks department for the purpose of installing water wells in parks for landscape maintenance. The loan will be repaid over 7 years at 1% interest with the final payment due on July 1, 2018.

⁽⁴⁾ Operating expenses for Fiscal Year 2014 are based on the budget adopted on June 25, 2013 and assume inflationary rate of 2% in Fiscal Years 2015 through 2018. Includes Treatment and Delivery Agreement costs other than Debt Service.

⁽⁵⁾ Total operating expenses excludes depreciation and amortization, as well as Debt Service component under the Treatment and Delivery Agreement.

⁽⁶⁾ Assumes interest rate equal to the fixed rate applicable to the scheduled payments to be made by the City under the 2008 Swap Agreement. Include certain ongoing expenses.

⁽⁷⁾ Does not reflect expected debt service savings resulting from the issuance of the Series 2013 Water Bonds.

⁽⁸⁾ Based on budgeted numbers; Fiscal Year 2013 actual data not yet available.

Source: City of Modesto.

Certain Limitations on City Imposition of City Water Utility System Fees and Charges

Proposition 218

General. An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIID. Article XIID defines the terms “fee” and “charge” to mean “any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property related service” is defined as “a public service having a direct relationship to property ownership.” Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In *Richmond et al. v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) the California Supreme Court ruled that water connection fees are not property related fees or charges subject to Article XIID while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. On July 24, 2006, in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006), in what is technically dicta, the California Supreme Court cited its decision in *Richmond*, *supra* in support of its conclusion that a public water agency’s charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Despite the fact that the statement is *dicta*, it does represent the unanimous view of the California Supreme Court. The City believes that it has complied with the requirements of Article XIID, as said article has been construed by the California Supreme Court, in establishing its current rate structure for water service provided by the City Water Utility System.

In addition, Article XIID includes a number of limitations applicable to pre-existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property related fees or charges based on potential or future use of a service are not permitted. It is unclear whether, under the foregoing standards, fees and charges may be established at levels that permit deposits to a rate stabilization fund or maintenance of uncommitted cash reserves.

Article XIIC. Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local

governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” However, in *dicta* in its decision in *Bighorn-Desert View Water Agency, supra*, the California Supreme Court concluded that a public water agency’s charges for ongoing water delivery (which, as noted above, it had concluded were fees and charges within the meaning of Article XIII D) are also fees within the meaning of Article XIII C and are therefore subject to initiative measures. However, the Court did note that, in doing so:

... [W]e are not holding that the authorized initiative power is free of all limitations. In particular, we are not determining whether the electorate’s initiative power is subject to the statutory provision [applicable to Bighorn-Desert View Water Agency] requiring that water service charges be set at a level that “will pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.” ... That issue is not currently before us.

Again, while the court’s conclusion set forth above is *dicta*, it does represent the unanimous view of the justices.

While the City does not believe that Article XIII C grants to the voters within the City the power to repeal or reduce rates and charges for water service provided by the City Water Utility System in a manner which would impair its ability to meet its contractual obligations under the Treatment and Delivery Agreement, there can be no assurance as to the availability of particular remedies adequate to protect the beneficial owners of the Series 2013 Water Bonds.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26, which amended article XIII C of the State Constitution by expanding the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, for performing investigations, inspections, and audits, for enforcing agricultural marketing orders, and for the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax; that the amount is no more than necessary to cover the reasonable costs of the governmental activity; and that the manner in which those costs are allocated to a payor bears a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. As of the date of this Official Statement, the City is unaware of any fees relating to the City Water Utility System that would have to be reduced or eliminated because of Proposition 26.

Effect of Propositions 218 and 26 and Other Initiatives

The ability of the City to comply with its covenants under the Treatment and Delivery Agreement and to generate City Gross Water Revenues sufficient to make Payments under the Treatment and Delivery Agreement to enable the District to make payment of the Series 2013 Installment Payments may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIIC or Article XIID by voters, property owners, taxpayers or payers of assessments, fees and charges. Proposition 218 and Proposition 26 were adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the City's Gross Water Revenues or ability to increase revenues. Neither the nature and impact of any such future measures nor the likelihood of qualification for ballot or passage can be anticipated by the City.

Investment Policy

Funds of the City, including cash attributable to the City Water Utility System, is required to be invested in accordance with the City's Investment Policy, adopted by the City Council during 1984 and most recently revised in 2012. In accordance with Sections 53601 and following of the California Government Code, idle cash management and investment transactions are the responsibility of the City Finance Director/Treasurer and permitted investments include the following:

- Securities of the U.S. Government, or its agencies,
- Certificates of deposit (or time deposits) and negotiable certificates of deposit placed with commercial banks,
- Banker's acceptances,
- Commercial paper of "prime" quality,
- Local Agency Investment Fund (State Pool) Demand Deposits, and
- Repurchase agreements.

Criteria for selecting investments and the order of priority are:

- Safety of Principal - Preservation of principal and interest,
- Liquidity - Ability to readily convert investment to cash at any moment in time, and
- Yield - Potential dollar earnings on an investment.

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield when selecting an investment, provided the criteria for safety and liquidity are met.

Audited Financial Statements

The City's annual financial report is audited in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly, in all material respects, the financial position of the City. The reports include certain notes to the financial statements. Such notes constitute an integral part of the audited financial statements. The annual financial reports of the City have received the Government Finance Officers Association Certificate of Achievement for each of the past 28 years.

The basic financial statements of the City as of June 30, 2012, which are incorporated by reference in and portions of which are included in APPENDIX B to this Official Statement, have been audited by Brown Armstrong Accountancy Corporation (the "Auditor"), independent certified public

accountants, as set forth in their report. In connection with the incorporation of the financial statements and the report of the Auditor thereon in APPENDIX B to this Official Statement, the City did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement; and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report. The Auditor has not been engaged to perform, and has not performed, since the date of its report included herein any procedures on the financial statements addressed in that report.

CERTAIN RISK FACTORS

The Series 2013 Water Bonds are payable solely from the Revenues pledged therefor under the Trust Agreement, consisting primarily of the Series 2013 Installment Payments made by the District and received by the Authority pursuant to the Installment Purchase Contract. The Series 2013 Installment Payments to be made by the District under the Installment Purchase Contract are payable solely from Treatment and Delivery Revenues received by the District from the City pursuant to the Treatment and Delivery Agreement, unless the District elects to appropriate monies to pay such obligations. The payment of debt service on the Series 2013 Bonds is therefor primarily dependent upon the receipt by the District of Payments from the City under the Treatment and Delivery Agreement. Some of the factors which could impair the ability of the City to pay the Payments as they become due under the Treatment and Delivery Agreement or which could otherwise result in a reduction in Treatment and Delivery Revenues received by the District or the availability of Revenues pledged under the Trust Agreement sufficient to make payment on the Series 2013 Water Bonds when due are summarized below. This discussion is not meant to be an exhaustive list of the risks associated with the purchase of the Series 2013 Water Bonds and does not necessarily reflect the relative importance of the various factors discussed. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Series 2013 Water Bonds. There can be no assurance that other risk factors will not become material in the future.

Risks Relating to City Gross Water Revenues

General. The City's obligation to make Payments to the District under the Treatment and Delivery Agreement is secured solely by a pledge of the City Gross Water Revenues on a parity with the other City Parity Obligations. The realization of City Gross Water Revenues sufficient in amount to meet all of the City's obligations payable therefrom is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water service to its users, and the ability of the City to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for maintenance and operation costs of the City Water Utility System. In addition, among other matters, drought, general and local economic conditions, changes in law and government regulations (including initiatives and moratoriums on growth) and unanticipated expenses or significant capital outlay requirements beyond that contemplated by the City's capital improvement program (including in connection with the completion of the Phase Two Expansion project) could adversely affect the amount of City Gross Water Revenues realized by the City or the demands on such City Gross Water Revenues.

Water Supply. There can be no assurance that the supply of water available to the City to meet potential system-wide demand of the City Water Utility System will be consistent with the assumptions described in this Official Statement. Adequacy of supply could be adversely affected by factors such as prolonged drought or increases in water quality standards which restrict the ability of the City to use existing groundwater supplies to meet demand. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Water Quality." While the Phase Two Expansion of the Domestic Water Project and other improvements undertaken and to be undertaken by the City to the City Water Utility System are intended to reduce the City's dependence upon groundwater supplies, there is no assurance that Phase

Two Expansion or any of such other improvements will be completed, will be able to treat and deliver the quantity of water initially expected or that they will be completed within a time frame and at a cost consistent with the various projections set forth in this Official Statement.

In addition to the potential problems of insufficient water to meet system wide demand discussed above, it is possible that the supply of water to meet the demands of particular portions of the City's water service area will be inadequate for such purposes. Some portions of the service area lack the wells necessary to supply them with groundwater, and other portions lack the infrastructure which would be required in order to deliver water from other portions of the service area.

Demand for Water. There can be no assurance that the demand for water service from the City Municipal Water System will occur as described in this Official Statement. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM." Not only is it possible that future increases in demand for water service will not occur at the rate described herein, it is also possible that current levels of demand could be reduced. A reduction in the level of demand could require an increase in rates or charges in order for the City to comply with its rate covenant under the Treatment and Delivery Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *City Rate Covenant.*"

City Water Utility System Expenses. There can be no assurance that the maintenance and operation costs of the City Water Utility System will be consistent with the projections set forth in this Official Statement. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Summary of Projected Operating Results of the City Water Utility System." Depending on the option ultimately pursued by the City and the District, if any, in providing for completion of the Phase Two Expansion project, operating costs of such Phase Two Expansion may be higher than currently assumed. Increases in such operating costs of the Phase Two Expansion project or in other maintenance and operation costs of the City Water Utility System could require a significant increase in rates or charges by the City in order to pay for existing and future improvements to the City Water Utility System and comply with its City Rate Covenant under the Treatment and Delivery Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *City Rate Covenant.*"

Rate Process. The passage of Proposition 218 by the California electorate affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM — Certain Limitations on City Imposition of City Water Utility System Fees and Charges."

Risk of Excused Performance under the Treatment and Delivery Agreement

Under certain limited conditions arising from significant damage to or destruction of the Domestic Water Project, a material reduction in the District's total annual water supply for physical reasons other than drought or the failure by the District to deliver a significant portion of the contracted water supply to the City for a reason other than drought, all as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Limited Take-or-Pay Obligation,*" as a result of which the District shall be unable or shall fail to or shall not be required to provide at least a specified level of treated water to the City pursuant to the Treatment and Delivery Agreement for an extended period of time, the City shall be excused from its obligation to pay Debt Service or fixed costs under the Treatment and Delivery Agreement. In the event of a suspension of the City's obligations to make such payments under the Treatment and Delivery Agreement for an extended period of time, Treatment and Delivery Revenues received by the District under the Installment Purchase Contract would not be sufficient to make the

Series 2013 Installment Payments and, upon the depletion of amounts available in the Series 2013 Debt Service Reserve Fund for such payment, there may not be sufficient Revenues under the Trust Agreement to make payments of principal of and interest on the Series 2013 Water Bonds when due. Although the District has covenanted under the Installment Purchase Contract, that in the event Treatment and Delivery Revenues are insufficient to pay in full any amount then due and payable with respect to the Series 2013 Water Bonds, an Authorized District Representative shall submit to the Board of Directors of the District a special budget item requesting a special appropriation from the Board of Directors of the District of the amount of such insufficiency, the Board of Directors of the District shall have absolute discretion in determining whether such a special appropriation shall be made, and a determination not to make a special appropriation shall not in and of itself constitute an Event of Default under the Installment Purchase Contract. In the event of such insufficiency of Treatment and Delivery Revenues and a decision by the Board of Directors of the District not to make such special appropriation to pay interest and principal on the Series 2013 Water Bonds, there are no other amounts pledged to the payment of the Series 2013 Water Bonds.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could interrupt operation of the Domestic Water Project and/or the City Water Utility System and cause a loss or contamination of surface water supplies and/or groundwater supplies otherwise available to the City or increased costs thereby impairing the ability of the City to realize City Gross Water Revenues. A prolonged interruption of the operation of the Domestic Water Project could also result in the City being excused from performance of its obligation to make Debt Service Payments under the Treatment and Delivery Agreement (see “– Risk of Excused Performance under the Treatment and Delivery Agreement” above). While City currently maintains insurance against damages to its City Water Utility System in amounts up to \$10,000,000, damages resulting from earthquakes are not covered. Pursuant to the Installment Purchase Contract, the District is required to maintain insurance on the Domestic Water Project with responsible insurers in such amounts and against such risks (including accident to or destruction of the Domestic Water Project) as are usually covered in connection with domestic water systems similar to the Domestic Water Project so long as such insurance is available from reputable insurance companies at reasonable costs. The District does not currently maintain insurance for damages to the Domestic Water Project resulting from either floods or earthquakes.

Statutory and Regulatory Impact

Laws and regulations governing the treatment and delivery of water are enacted and promulgated by governmental agencies on the federal, state and local levels. Compliance with these laws and regulations may prove costly; and, as more stringent statutory and regulatory standards are developed to protect both the health of consumers and environment, these costs will likely continue to increase. No assurance can be given that the compliance with applicable laws and regulations will not materially adversely affect the costs or operations of the Domestic Water Project or the City Water Utility System.

Limitations on Remedies

The ability of the Authority, the District and the City to comply with their respective covenants and obligations under the Trust Agreement, the Installment Purchase Contract and the Treatment and Delivery Agreement so as to provide sufficient Revenues to the Authority to pay the principal of and interest on the Series 2013 Water Bonds may be adversely affected by actions and events outside of the control of the Authority, the District or the City. The owners of the Series 2013 Water Bonds have no rights under the Treatment and Delivery Agreement and cannot enforce the provisions thereof. Furthermore, any remedies available to the owners of the Series 2013 Water Bonds upon the occurrence of an event of default under the Trust Agreement are in many respects dependent upon judicial actions

which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition, in addition to the limitations on remedies contained in the Trust Agreement, the Installment Purchase Contract and the Treatment and Delivery Agreement, enforceability of the rights and remedies contained therein and the obligations of the Authority, the District and the City thereunder may become subject to the following: the federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. As described under "–Bankruptcy Risks" below, bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series 2013 Water Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Bankruptcy Risks

The City, the District, and the Authority are each authorized to file for under chapter 9 of the United States Bankruptcy Code under certain circumstances. Should the City, the District, or the Authority file for bankruptcy, there could be adverse effects on the Owners or beneficial owners of the Series 2013 Water Bonds.

If the City Gross Water Revenues are "special revenues" under the Bankruptcy Code, then City Gross Water Revenues collected after the date of a bankruptcy filing by the City should be subject to the lien of the Treatment and Delivery Agreement (subject to the risks of commingling discussed below). Similarly, if the Treatment and Delivery Revenues are "special revenues" under the Bankruptcy Code, then Treatment and Delivery Revenues collected after the date of a bankruptcy filing by the District should be subject to the lien of the Installment Purchase Contract (subject to the risks of commingling discussed below). "Special revenues" are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used or intended to be used primarily to provide utility services. Although the City Gross Water Revenues and the Treatment and Delivery Revenues appear to satisfy the definition of "special revenues" where the City or the District, respectively are in bankruptcy, no assurance can be given that a court would hold that the City Gross Water Revenues and/or Treatment and Delivery Revenues are special revenues subject to the lien of the Treatment and Delivery Agreement and the Installment Purchase Contract, respectively. The Authority's revenues likely are not "special revenues" since the Authority does not own or operate the City's Water Utility System or the Domestic Water Project.

If the City Gross Water Revenues are determined to not be "special revenues," then City Gross Water Revenues collected after the commencement of a City bankruptcy case will likely not be subject to the lien of the Treatment and Delivery Agreement. The District may not be able to assert a claim against any property of the City other than the City Gross Water Revenues, and if these amounts are no longer subject to the lien of the Treatment and Delivery Agreement, then there may be no Treatment and Delivery Revenues available to the District for the payment of the Series 2013 Installment Payments. The Installment Purchase Contract provides that the District is not required to advance any moneys derived from any source of income other than the Treatment and Delivery Revenues and the funds provided under the Installment Purchase Contract for the payment of the Series 2013 Installment Payments, and therefore, there may be no Revenues under the Trust Agreement from which the Owners or beneficial owners of the Series 2013 Water Bonds are entitled to be paid. A similar result could occur in the event of a District bankruptcy filing if the Treatment and Delivery Revenues are determined to not be "special revenues" and Treatment and Delivery Revenues collected by the District after the commencement of the District

bankruptcy are not subject to the lien of the Installment Purchase Contract. A similar result could occur in the event of an Authority bankruptcy filing.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the related project or system before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, the City may be able to use City Gross Water Revenues to pay necessary operating expenses of the City Water Utility System or the District may be able to use Treatment and Delivery Revenues to pay necessary operating expenses of the Domestic Water Project before the remaining City Gross Water Revenues or Treatment and Delivery Revenues, as applicable, are made available to pay the Payments to be made by the City under the Treatment and Delivery Agreement or the Series 2013 Installment Payments to be made by the District under the Installment Purchase Contract which secure the payment of the Series 2013 Water Bonds. A similar result could occur in the event of an Authority bankruptcy filing. It is not clear which expenses would constitute necessary operating expenses.

If the City, the District, or the Authority is in bankruptcy, the parties (including the District (with respect to the obligations of the City), the Authority (with respect to the obligations of the District), the Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds, as applicable) may be prohibited from taking any action to collect any amount from the City, the District, or the Authority, or to enforce any obligation of the City, the District, or the Authority, as applicable, without the bankruptcy court's permission. This prohibition may also prevent the Trustee from making payments to the Owners or beneficial owners of the Series 2013 Water Bonds from funds in the Trustee's possession. The City Rate Covenant (see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *City Rate Covenant*") or the District's rate covenant under the Installment Purchase Contract may not be enforceable in bankruptcy by the Trustee or the Owners or beneficial owners of the Series 2013 Water Bonds.

The City is permitted to commingle the City Gross Water Revenues with its own funds before applying the City Gross Water Revenues to make Payments when due under the Treatment and Delivery Agreement. If the City has any Gross Water Revenues in its possession when it files for bankruptcy and such Gross Water Revenues have been commingled with other moneys, then the District (and thus the Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds) may not have a lien on such moneys and the City may not be required to turn over such moneys to the District. If the City has possession of City Gross Water Revenues (whether collected before or after commencement of the bankruptcy) and if the City does not voluntarily turn over such City Gross Water Revenues to the District, it is not entirely clear what procedures the District would have to follow to attempt to obtain possession of such City Gross Water Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Similarly, the District is permitted to commingle the Treatment and Delivery Revenues with its own funds before applying the Treatment and Delivery Revenues to make the Series 2013 Installment Payments under the Installment Purchase Contract. If the District has any Treatment and Delivery Revenues in its possession when it files for bankruptcy and such Treatment and Delivery Revenues have been commingled with other moneys, then the Authority (and thus the Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds) may not have a lien on such moneys and the District may not be required to turn over such moneys to the Authority. If the District has possession of Treatment and Delivery Revenues (whether collected before or after commencement of the bankruptcy) and if the District does not voluntarily turn over such Treatment and Delivery Revenues to the Authority, it is not entirely clear what procedures the Authority would have to follow to attempt to obtain possession of such Treatment and Delivery Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Similar issues could arise in the event of the bankruptcy of the Authority. Under any of such circumstances, there may be delays or reductions in payments on the Series 2013 Water Bonds.

In the event of a City bankruptcy filing, the City may be able to borrow additional money that is secured by a lien on any of its property (including the City Gross Water Revenues), which lien could have priority over the lien of the Treatment and Delivery Agreement, as long as the bankruptcy court determines that the rights of the District under the Treatment and Delivery Agreement will be adequately protected. The City may be able to cause some of the City Gross Water Revenues to be released to it, free and clear of lien of the Treatment and Delivery Agreement, as long as the bankruptcy court determines that the rights of the District under the Treatment and Delivery Agreement will be adequately protected.

Similarly, in the event of a District bankruptcy filing, the District may be able to borrow additional money that is secured by a lien on any of its property (including the Treatment and Delivery Revenues), which lien could have priority over the lien of the Installment Purchase Contract, as long as the bankruptcy court determines that the rights of the Authority or the Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds under the Installment Purchase Contract and the Trust Agreement will be adequately protected. The District may be able to cause some of the Treatment and Delivery Revenues to be released to it, free and clear of lien of the Installment Purchase Contract, as long as the bankruptcy court determines that the rights of the Authority or Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds under the Installment Purchase Contract and the Trust Agreement will be adequately protected. Similar issues could arise in the event of the bankruptcy of the Authority.

The City or the District, as applicable, may be able, without the consent and over the objection of the District (with respect to actions of the City), the Authority, the Trustee and Owners or beneficial owners of the Series 2013 Water Bonds, as applicable, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Treatment and Delivery Agreement or Installment Purchase Contract, as applicable, as long as the bankruptcy court determines that the alterations are fair and equitable. Similar issues could arise in the event of the bankruptcy of the Authority.

If the City or the District goes into bankruptcy it may be able to require the District, the Authority, or the Owners and beneficial owners of the Series 2013 Water Bonds to return, as preferential transfers, all payments made under the Treatment and Delivery Agreement or the Installment Purchase Contract, as applicable, during the 90 days, or possibly one year, preceding the bankruptcy.

If the City goes into bankruptcy, it may be able to reject the Treatment and Delivery Agreement. If the District goes into bankruptcy it may be able to reject the Treatment and Delivery Agreement or the Installment Purchase Agreement. A consequence of such rejections may be that the City is no longer obligated to pay City Gross Water Revenues to the District and that the District is no longer obligated to pay the Treatment and Delivery Revenues to the Authority. Under such circumstances, the Owners and beneficial owners of the Series 2013 Water Bonds may suffer substantial losses.

There may be delays in payments on the Series 2013 Water Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City, the District, or the Authority that could result in delays or reductions in payments on the Series 2013 Water Bonds, or result in losses to the Owners or beneficial owners of the Series 2013 Water Bonds. Regardless of any specific adverse determinations in a bankruptcy proceeding of the City, the District, or the Authority, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and market value of the Series 2013 Water Bonds.

Risk of Investment Losses

Pending delivery of City Gross Water Revenues to the District, the City may, and intends to, invest City Gross Water Revenues in investments authorized for the investment of City funds. See “THE

CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Investment Policy.” Pending delivery of Treatment and Delivery Revenues to the Authority, the District may, and intends to invest Treatment and Delivery Revenues in Permitted Investments as provided in the Installment Purchase Contract. See APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS.” Should any of these investments suffer any losses, there may be delays or reductions in payments on the Series 2013 Water Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2013 Water Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2013 Water Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2013 Water Bonds is less than the amount to be paid at maturity of such Series 2013 Water Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2013 Water Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2013 Water Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2013 Water Bonds is the first price at which a substantial amount of such maturity of the Series 2013 Water Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2013 Water Bonds accrues daily over the term to maturity of such Series 2013 Water Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2013 Water Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2013 Water Bonds. Owners of the Series 2013 Water Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2013 Water Bonds with original issue discount, including the treatment of owners who do not purchase such Series 2013 Water Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2013 Water Bonds is sold to the public.

Series 2013 Water Bonds purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Series 2013 Water Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Series 2013 Water Bonds, like the Premium Series 2013 Water Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an owner’s basis in a Premium Series 2013 Water Bond, will be reduced by the amount of amortizable bond premium properly allocable to such owner. Owners of Premium Series 2013 Water Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2013 Water Bonds. The Authority and the District have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2013 Water Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2013 Water Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2013 Water Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of execution and delivery of the Series 2013 Water Bonds may adversely affect the value of, or the tax status of interest on, the Series 2013 Water Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2013 Water Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2013 Water Bonds may otherwise affect an owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Series 2013 Water Bond or the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Tax legislation or administrative actions taken by tax authorities (whether currently proposed, proposed in the future or enacted) and court decisions may cause interest on the Series 2013 Water Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent the beneficial owners of the Series 2013 Water Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation, actions or decisions could adversely affect the market price or marketability of the Series 2013 Water Bonds. As one example, the Obama Administration's proposed 2014 budget includes a legislative proposal which, for tax years beginning on and after January 1, 2014, generally would limit the exclusion from gross income of interest on obligations like the Series 2013 Water Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect the exclusion from gross income of interest on obligations like the Series 2013 Water Bonds. The introduction or enactment of any such legislative proposals or of any such future legislative proposals, or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2013 Water Bonds. Prospective purchasers of the Series 2013 Water Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2013 Water Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the District have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2013 Water Bonds ends with the issuance of the Series 2013 Water Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the District or the owners of the Series 2013 Water Bonds regarding the tax-exempt status of interest on the Series 2013 Water Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the District and their appointed counsel, including the owners of the Series 2013 Water Bonds, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds or certificates of participation is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2013 Water Bonds for audit, or the course or result of such audit, or an audit of bonds or certificates of participation presenting similar tax issues may affect the market price for, or the marketability of, the Series 2013 Water Bonds, and may cause the Authority, the District or the owners of the Series 2013 Water Bonds to incur significant expense.

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance of the Series 2013 Water Bonds or the execution or delivery of the Installment Purchase Contract or the Trust Agreement, or in any way contesting or affecting the validity of the Trust Agreement, the Installment Purchase Contract or the Treatment and Delivery Agreement or any proceedings of the Authority, the District or the City taken with respect to any of the foregoing.

There is no litigation pending or, to the knowledge of the Authority, the District or the City, threatened, questioning the corporate existence of the Authority, the District or the City, or the title of the officers of the Authority, the District or the City to their respective offices, or the power and authority of the Authority, the District or the City to execute the Trust Agreement, the Installment Purchase Contract or the Treatment and Delivery Agreement, as applicable, or of the District or the City to make payments under the Installment Purchase Contract or the Treatment and Delivery Agreement, as applicable. There is no litigation pending, or to the knowledge of the District or the City, threatened, questioning or affecting in any material respect any of the financial information or projections with respect to the District or the City contained in this Official Statement.

RATINGS

Standard & Poor's Rating Services ("S&P") and Fitch Ratings ("Fitch") are expected to assign the Series 2013 Water Bonds the underlying long-term municipal bond ratings of "AA- (stable outlook)" and "AA-(stable outlook)," respectively, without regard to the Bond Insurance Policy. S&P is expected to assign the Insured Series 2013 Water Bonds the long-term municipal bond rating of "AA- (stable outlook)" with the understanding that upon the delivery of the Insured Series 2013 Water Bonds, the Bond Insurance Policy will be issued for the Insured Series 2013 Water Bonds by Assured Guaranty Municipal Corp. See "BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS." These ratings reflect only the views of the rating agencies and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Standard & Poor's Rating Services, 55 Water Street, 38th Floor, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. There is no assurance that any of such ratings will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency that issued it, if in the judgment of such rating agency, circumstances so warrant. The Authority and the District undertake no responsibility to either bring to the attention of the owners of the Series 2013 Water Bonds any revision or withdrawal of any such rating or to contest any such revision or withdrawal. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Series 2013 Water Bonds.

UNDERWRITING

Pursuant to a Purchase Contract with the Authority, Citigroup Global Markets Inc. (the “Underwriter”) has agreed, subject to certain conditions, to purchase the Series 2013 Water Bonds at a price of \$ _____ (representing the \$ _____ aggregate principal amount of the Series 2013 Water Bonds, less \$ _____ of Underwriter’s discount, and plus \$ _____ original issue premium). The Purchase Contract provides that the Underwriter will purchase all of the Series 2013 Water Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell Series 2013 Water Bonds to certain dealers (including dealers depositing Series 2013 Water Bond into investment trusts) and others at prices lower than the respective public offering prices stated on the inside cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

Citigroup Inc., parent company of Citigroup Global Markets Inc., the Underwriter of the Series 2013 Water Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Citigroup Global Markets Inc. may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2013 Water Bonds.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the District in connection with the issuance of the Series 2013 Water Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Series 2013 Water Bonds is contingent upon the issuance and delivery of the Series 2013 Water Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2013 Water Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

CERTAIN LEGAL MATTERS

The validity of the Series 2013 Water Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the Authority and the District by the District’s General Counsel. Certain legal matters will be passed upon for the City by the City Attorney of the City of Modesto and by Sidley Austin LLP, San Francisco, California. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright. Payment of the fees of Bond Counsel and Underwriter’s Counsel is contingent upon sale and delivery of the Series 2013 Water Bonds.

MISCELLANEOUS

The purpose of this Official Statement is to provide information to prospective purchasers of the Series 2013 Water Bonds. References are made herein to the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement and other agreements, documents and reports that are brief summaries thereof which do not purport to be complete or definitive, and reference is hereby made to all such agreements, documents and reports for a full and complete statement of the contents thereof.

Any statements made in this Official Statement involving matters of opinion, estimates or projections, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such estimates or projections will be realized. This Official Statement is not to be construed as a contract or agreement between the purchasers of any of the Series 2013 Water Bonds and the Authority or the District.

EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by the Authority, the District and the City.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By: _____
Chairperson

MODESTO IRRIGATION DISTRICT

By: _____
General Manager

CITY OF MODESTO

By: _____
Director of Finance

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APPENDIX A

CERTAIN INFORMATION REGARDING THE CITY OF MODESTO

The following information with respect to the City is presented for information purposes only. The Series 2013 Water Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter limitations and the City is not obligated to levy any ad valorem taxes therefor or to use any other funds of the City to pay the Series 2013 Installment Payments or the interest thereon.

General Description

The City, which is the county seat of Stanislaus County, California (the “County”) was incorporated in 1884. It covers approximately 36 square miles. The City operates under a council-manager form of government pursuant to a charter adopted in 1963. The City is located in central California approximately 93 miles east of the City and County of San Francisco.

The City Council (the “Council”) appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements Council directives and policies, and manages the administrative and operational functions through the various department heads who are appointed by the City Manager.

The City provides the full range of services normally associated with a municipality, including public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. The City also provides parking and airport facilities and water, sewer and bus service. The school districts in the City are separate governmental entities which receive no funding from the City.

Population

The following table represents historical population statistics for the City, the County and the State.

CITY OF MODESTO Population Estimates⁽¹⁾

<u>Calendar Year</u>	<u>City of Modesto</u>	<u>Stanislaus County</u>	<u>State of California</u>
2009	201,331	511,226	36,966,713
2010	201,165	514,453	37,253,956
2011	201,713	516,244	37,427,984
2012	202,852	519,339	37,668,804
2013	205,987	524,124	37,966,471

⁽¹⁾ As of January 1.

Source: California State Department of Finance.

Employment

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2009 through 2012 and as of June for 2013. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

**MODESTO METROPOLITAN STATISTICAL AREA
(Stanislaus County)
Industry Employment and Labor Force
(Annual Averages)⁽¹⁾**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013⁽¹⁾</u>
<u>Civilian Labor Force</u>					
Employment	197,700	198,300	198,800	203,100	208,700
Unemployment	37,200	41,500	40,000	36,300	30,400
Unemployment Rate	15.8%	17.3%	16.7%	15.2%	12.7%
<u>Wage and Salary Employment:</u>					
Total Farm	12,900	12,900	12,900	13,300	16,700
Mining and Construction	6,600	5,900	5,900	6,300	5,900
Manufacturing	20,900	20,700	20,800	20,800	20,900
Wholesale Trade	6,100	5,900	5,800	5,800	5,900
Retail Trade	19,500	19,500	20,500	20,700	20,900
Transport., Warehousing, Utilities	5,700	6,200	6,700	6,800	7,300
Information	1,300	1,200	1,100	1,000	900
Financial Activities	5,600	5,500	5,400	5,400	5,400
Professional and Business Services	13,200	12,500	12,400	12,800	12,600
Educational and Health Services	22,200	23,200	23,800	24,000	24,100
Leisure and Hospitality	14,700	14,600	14,700	14,900	15,500
Other Services	5,200	5,100	4,800	4,900	5,100
Federal Government	900	1,000	900	900	700
State Government	1,700	1,700	1,800	1,800	1,900
Local Government	23,200	23,600	22,700	22,700	22,700
Total All Industries	159,700	159,200	160,200	162,000	166,500

⁽¹⁾ Annual averages for years 2009 through 2012; as of June for 2013.

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department.

Major Employers

The following table summarizes the largest manufacturing employers in the County.

COUNTY OF STANISLAUS 2012 Ten Largest Manufacturing Employers

Company Name	No. Employees	Product
E&J Gallo Winery	3,181	Winery
Seneca Foods	2,200	Fruit Products
Stanislaus Food Products	1,900	Tomato Products
Foster Farms	1,722	Poultry Processor
Del Monte Foods	1,700	Fruit Products
Con Agra	1,200	Tomato & Bean Products
Bronco Wine Company	834	Winery
Frito-Lay	684	Snack Food Products
Racor	648	Filtration Products
Foster Farms Dairy	628	Dairy Products

Source: County of Stanislaus Recommended Proposed Budget, Budget Year 2013-2014.

Commercial Activity

The following two tables show the dollar volume of taxable transactions in the City of Modesto from 2008 through 2011 and for the first quarter of 2012 and in the County from 2009 through 2011 and for the first quarter of 2012.

CITY OF MODESTO Taxable Transactions Calendar Years 2008 through 2012⁽¹⁾ (in Thousands of Dollars)

Type of Business ⁽²⁾	2008 ⁽²⁾	2009	2010	2011	2012 ⁽³⁾
Motor Vehicle and Parts Dealers	\$ 157,535	\$ 121,240	\$ 123,746	\$ 141,665	\$ 40,402
Home Furnishings and Appliance Stores	101,735	110,983	109,298	104,938	28,639
Building Materials and Garden Equipment and Supplies	119,759	121,934	117,839	123,509	31,173
Food and Beverage Stores	140,336	146,848	147,798	152,366	36,124
Gasoline Stations	184,299	140,156	158,889	205,418	52,853
Clothing and Clothing Accessories Stores	153,309	181,187	193,425	212,019	50,636
General Merchandise Stores	479,820	397,710	395,789	399,048	88,960
Food Services and Drinking Places	272,113	267,027	270,400	283,815	75,039
Other Retail Group	326,105	224,693	225,611	266,031	54,374
Retail Stores Totals	\$1,935,011	\$1,711,777	\$1,742,796	\$1,848,808	458,201
All Other Outlets	476,868	547,994	613,902	686,264	151,841
All Outlets	\$2,411,879	\$2,259,771	\$2,356,698	\$2,535,072	\$610,042

⁽¹⁾ Last year of available information.

⁽²⁾ Some category names for types of business are different for calendars years 2007 and 2008.

⁽³⁾ Through first quarter of 2012.

Source: State of California, Board of Equalization.

COUNTY OF STANISLAUS
Taxable Transactions
Calendar Years 2009 through 2012⁽¹⁾
(in Thousands of Dollars)

Retail Outlets	2009	2010	2011	2012⁽²⁾
Motor Vehicle and Parts Dealers	\$ 603,221	\$ 667,202	\$ 759,797	\$ 216,527
Furniture and Home Furnishings Stores	78,896	78,254	80,300	20,860
Electronics and Appliance Stores	114,146	109,499	107,390	29,092
Building Material and Garden Equipment and Supplies	379,318	388,859	408,346	107,075
Food and Beverage Stores	297,253	302,012	307,077	72,166
Health and Personal Care Stores	99,013	105,182	110,367	27,727
Gasoline Stations	516,398	599,577	714,239	181,340
Clothing and Clothing Accessories Stores	239,037	254,352	275,708	65,389
Sporting Goods, Hobby, Book and Music Stores	118,244	118,057	118,191	29,133
General Merchandise Stores	760,551	768,989	772,310	173,147
Miscellaneous Store Retailers	181,250	177,114	177,496	41,337
Nonstore Retailers	34,006	34,974	35,001	7,577
Food Services and Drinking Places	504,306	508,627	527,790	138,702
Subtotal	\$3,925,638	\$4,112,697	\$4,394,011	\$1,110,073
All Other Outlets	1,921,419	1,985,917	2,268,455	546,732
All Outlets	\$5,847,057	\$6,098,614	\$6,662,466	\$1,656,805

⁽¹⁾ Last year of available information.

⁽²⁾ Through first quarter of 2012.

Source: State of California, Board of Equalization.

Construction Trends

“Single Family Housing,” includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. “Multi-Family Housing,” includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multi-family housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. “Residential Alterations and Additions,” means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

“New Commercial,” includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. “New Industrial,” includes manufacturing plants and affiliated buildings. “Other New Nonresidential,” includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, and miscellaneous nonresidential structures. “Nonresidential Alterations and Additions,” means alterations, additions, and conversions to nonresidential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

Provided below are the building permits and valuations for the City of Modesto for calendar years 2008 through 2012.

CITY OF MODESTO
Residential and Nonresidential Building Permit Valuations
and Total Residential Building Permits

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Permit Valuation					
New Single-family	\$23,549,600	\$ 4,563,900	\$ 5,142,200	\$ 6,546,152	\$ 1,630,712
New Multi-family	-	-	-	-	7,127,105
Res. Alterations & Additions	7,524,500	7,735,200	6,644,300	5,435,328	18,928,052
Total Residential	<u>\$31,074,100</u>	<u>\$12,299,100</u>	<u>\$11,786,500</u>	<u>\$11,981,480</u>	<u>\$27,685,869</u>
New Nonresidential	25,656,500	11,794,300	13,906,300	4,651,393	11,842,526
Non-Res. Alterations & Additions	28,581,500	16,345,400	14,948,600	21,226,479	18,990,301
Total Nonresidential	<u>\$54,238,000</u>	<u>\$28,139,700</u>	<u>\$28,854,900</u>	<u>\$25,877,872</u>	<u>\$30,832,827</u>
Total All Building	\$85,312,100	\$40,438,800	\$40,641,400	\$37,859,352	\$58,518,696
New Dwelling Units					
Single Family	113	18	35	38	8
Multiple Family	0	0	0	0	10
Total	<u>113</u>	<u>18</u>	<u>35</u>	<u>38</u>	<u>18</u>

Note: Totals may not add up because of rounding.

Source: California Homebuilding Foundation/Construction Industry Research Board.

Agriculture

The following table summarizes historical agricultural production within the County for calendar years 2007 through 2011.

STANISLAUS COUNTY
Agricultural Production
2007-2011
(\$ in 000s)

<u>Commodity</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Fruit and Nut Crops	\$ 755,650	\$ 756,392	\$ 766,741	\$ 703,874	\$1,061,047
Vegetable Crops	100,416	104,930	208,944	244,263	166,420
Field Crops	175,779	265,724	184,294	233,440	319,359
Other Agriculture	--	9,540	19,619	25,646	26,194
Seed Crops	756	813	1,153	643	1,470
Apiary	31,139	43,911	46,847	48,630	50,643
Nursery Products	99,985	101,207	96,795	114,363	95,645
Organic Products	15,225	10,055	15,000	8,000	41,244
Livestock & Poultry	446,133	434,125	463,056	552,892	500,480
Livestock & Poultry Products	796,567	747,146	507,621	640,683	807,321
TOTALS	<u>\$2,421,650</u>	<u>\$2,473,843</u>	<u>\$2,310,070</u>	<u>\$2,572,434</u>	<u>\$3,069,823</u>

Source: Stanislaus County Department of Agriculture.

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APPENDIX B

EXCERPTED FINANCIAL STATEMENTS OF THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM

The City has filed its Comprehensive Annual Financial Report (“CAFR”) for Fiscal Year 2011-12 with EMMA. Such CAFR is incorporated herein by reference. The following are excerpts from the CAFR relating to the City Water Utility System.

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CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2012

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 68,854,649	\$ 52,921,646	\$ 4,531,924	\$ 6,549,989	\$ 132,858,208	\$ 34,572,907
Cash and cash equivalents with fiscal agent	22,182,781	4,023,789	-	603,150	26,809,720	305,081
Receivables:						
Accounts	1,610	45,200	20,809	854,774	922,393	787,363
Interest	226,783	153,417	8,803	20,995	409,998	74,591
Utilities, net	6,435,857	4,074,441	-	567,764	11,078,062	-
Prepaid expenses	925,475	932	-	1,342	927,749	189,785
Due from governments	12,017	1,997,812	3,512,850	197,501	5,720,180	8,422
Inventories	-	-	-	-	-	451,280
Property held for resale	-	-	-	630,000	630,000	-
Advances to other funds	350,000	-	-	-	350,000	2,431,738
Total current assets	<u>98,989,172</u>	<u>63,217,237</u>	<u>8,074,386</u>	<u>9,425,515</u>	<u>179,706,310</u>	<u>38,821,167</u>
Noncurrent assets:						
Restricted assets-cash and cash equivalents	10,063,311	1,455,092	-	-	11,518,403	12,002,745
Unamortized costs of issuance	1,019,257	661,796	-	-	1,681,053	-
Deferred outflow of resource	48,366,329	-	-	-	48,366,329	-
Land and construction in progress	22,726,783	70,556,533	17,813,086	11,393,617	122,490,019	8,168,389
Other capital assets, net of accumulated depreciation	440,157,705	119,086,600	13,001,116	38,548,980	610,794,401	12,631,400
Total noncurrent assets	<u>522,333,385</u>	<u>191,760,021</u>	<u>30,814,202</u>	<u>49,942,597</u>	<u>794,850,205</u>	<u>32,802,534</u>
Total assets	<u>621,322,557</u>	<u>254,977,258</u>	<u>38,888,588</u>	<u>59,368,112</u>	<u>974,556,515</u>	<u>71,623,701</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 1,231,057	\$ 2,466,225	\$ 1,417,148	\$ 252,916	\$ 5,367,346	\$ 1,990,070
Accrued salaries and benefits	304,312	281,036	48,093	150,864	784,305	208,477
Interest payable	2,310,011	352,239	2,319	41,196	2,705,765	1,978
Due to other funds	-	-	-	653,535	653,535	-
Due to other governments	-	-	-	-	-	-
Current portion - compensated absences	-	-	-	-	-	8,326,852
Current portion - claims liability	-	-	-	-	-	5,215,194
Current portion - capital lease	-	-	-	-	-	174,837
Current portion - long-term debt	5,540,327	1,955,000	-	275,000	7,770,327	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Deferred revenues	-	-	3,827,998	107,310	3,935,308	-
Total current liabilities	<u>9,478,819</u>	<u>5,054,500</u>	<u>5,295,558</u>	<u>1,480,821</u>	<u>21,309,698</u>	<u>15,917,408</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,123,874	781,872	-	-	1,905,746	-
Compensated absences	-	-	-	-	-	2,560,862
Net OPEB obligation	-	-	-	-	-	70,012,039
Claims liability	-	-	-	-	-	18,000,713
Long-term debt:						
Revenue bonds payable	145,810,000	41,353,177	-	-	187,163,177	-
Derivative instrument SWAP	48,366,329	-	-	-	48,366,329	-
Loan payable	4,611,831	10,236,708	-	-	14,848,539	-
Notes payable	-	-	-	-	-	-
Obligations under capital leases	-	-	-	-	-	359,990
Certificates of participation	45,467,067	-	-	4,185,000	49,652,067	-
Developer advances	1,517,785	-	-	-	1,517,785	-
Advances from other funds	-	-	-	1,324,704	1,324,704	-
Total noncurrent liabilities	<u>246,896,886</u>	<u>52,371,757</u>	<u>-</u>	<u>5,509,704</u>	<u>304,778,347</u>	<u>90,933,604</u>
Total liabilities	<u>256,375,705</u>	<u>57,426,257</u>	<u>5,295,558</u>	<u>6,990,525</u>	<u>326,088,045</u>	<u>106,851,012</u>
Invested in capital assets, net of related debt	270,301,588	136,771,468	30,814,202	45,482,597	473,757,198	20,439,799
Unrestricted	94,645,264	60,779,533	2,778,828	6,894,990	174,711,272	(55,667,110)
Total net assets	<u>\$ 364,946,852</u>	<u>\$ 197,551,001</u>	<u>\$ 33,593,030</u>	<u>\$ 52,377,587</u>	<u>648,468,470</u>	<u>\$ (35,227,311)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(22,707,617)</u>	
Net assets of business-type activities					<u>\$ 625,760,853</u>	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 2012

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
OPERATING REVENUES:						
Charges for services	\$ 57,338,565	\$ 41,804,518	\$ 2,887,841	\$ 14,562,561	\$ 116,593,485	\$ 39,702,048
Sales	-	-	-	-	-	3,400,703
Cost of sales	-	-	-	-	-	(3,125,905)
Miscellaneous	195,626	21,410	4,698	56,184	277,918	-
Total operating revenues	<u>57,534,191</u>	<u>41,825,928</u>	<u>2,892,539</u>	<u>14,618,745</u>	<u>116,871,403</u>	<u>39,976,846</u>
OPERATING EXPENSES:						
Salaries and wages	6,439,990	5,823,441	1,067,837	3,347,533	16,678,801	4,055,178
Contractual services	6,629,458	3,850,027	10,785,011	3,007,238	24,271,734	3,576,410
Utilities	2,440,121	1,603,221	108,355	503,202	4,654,899	253,537
Maintenance and supplies	2,301,818	2,216,023	1,831,161	3,627,551	9,976,553	3,090,742
Water purchases	6,822,552	-	-	-	6,822,552	-
Insurance	321,755	547,333	45,710	258,971	1,173,769	15,897,901
Claims expense	-	-	-	-	-	8,089,359
Employee benefits	2,359,762	2,543,297	470,303	1,389,821	6,763,183	18,443,427
Administration services	1,722,725	1,757,198	895,100	2,231,810	6,606,833	2,160,182
Allocated indirect administrative costs	1,142,082	989,972	131,573	354,051	2,617,678	269,173
Depreciation	15,771,300	5,821,148	1,439,223	2,869,467	25,901,138	3,513,676
Total operating expenses	<u>45,951,563</u>	<u>25,151,660</u>	<u>16,774,273</u>	<u>17,589,644</u>	<u>105,467,140</u>	<u>59,349,585</u>
OPERATING INCOME (LOSS)	<u>11,582,628</u>	<u>16,674,268</u>	<u>(13,881,734)</u>	<u>(2,970,899)</u>	<u>11,404,263</u>	<u>(19,372,739)</u>
NONOPERATING REVENUES (EXPENSES)						
Operating grants	-	42,471	12,381,968	269,619	12,694,058	-
Gain (Loss) on disposition of capital assets	46,875	(24,995)	(8)	(12,885)	8,987	(60,823)
Tax revenue	-	-	-	253,974	253,974	-
Tax expense	(89,214)	(13,569)	-	(20,988)	(123,771)	-
Interest income	668,853	642,195	(7,262)	59,092	1,362,878	522,210
Net increase in fair value of investments	(415,836)	(79,538)	(12,025)	(31,109)	(538,508)	(135,356)
Rental income	43,941	509,617	88,392	629,627	1,271,577	-
Settlements and recoveries	-	222,379	-	-	222,379	-
Interest expense	(5,960,188)	(2,350,391)	-	(233,197)	(8,543,776)	(421)
Trustee fees	(2,600)	(2,509)	-	(2,800)	(7,909)	-
Amortization of costs of issuance	(69,159)	(58,667)	-	-	(127,826)	-
Total nonoperating revenues (expenses)	<u>(5,777,328)</u>	<u>(1,113,007)</u>	<u>12,451,065</u>	<u>911,333</u>	<u>6,472,063</u>	<u>325,610</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	5,805,300	15,561,261	(1,430,669)	(2,059,566)	17,876,326	(19,047,129)
Capital contributions	103,081	958,919	10,670,078	289,715	12,021,793	3,527
Transfers in	-	-	1,630	1,992,470	1,994,100	5,985,281
Transfers out	(2,176,439)	(641,220)	(8,402)	(2,006,912)	(4,832,973)	(307,205)
Special item	(388,651)	(437,482)	-	-	(826,133)	-
CHANGE IN NET ASSETS	3,343,291	15,441,478	9,232,637	(1,784,293)	26,233,113	(13,365,526)
NET ASSETS, July 1	375,889,162	182,069,143	24,398,728	54,900,630		(21,877,777)
PRIOR YEAR ADJUSTMENTS	<u>(14,285,601)</u>	<u>40,380</u>	<u>(38,335)</u>	<u>(738,750)</u>		<u>15,992</u>
NET ASSETS, June 30	<u>\$ 364,946,852</u>	<u>\$ 197,551,001</u>	<u>\$ 33,593,030</u>	<u>\$ 52,377,587</u>		<u>\$ (35,227,311)</u>
Adjustment to reflect the consolidation of internal service fund					<u>(4,669,995)</u>	
Change in net assets of business-type activities					<u>\$ 21,563,118</u>	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year ended June 30, 2012

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 58,815,606	\$ 39,922,901	\$ 2,969,926	\$ 15,162,240	\$ 116,870,673	\$ 3,654,790
Receipts from interfund services provided	60,002	465,310	-	18,537	543,849	36,165,584
Payments to suppliers	(17,008,503)	(4,237,260)	(13,087,654)	3,197,298	(31,136,119)	(21,890,737)
Payment of insurance claims	-	-	-	-	-	(5,539,896)
Payments to employees	(8,740,777)	(8,332,425)	(1,533,811)	(4,715,968)	(23,322,981)	(10,708,372)
Payments for interfund services used	(6,791,105)	(6,462,673)	(1,328,859)	(13,304,438)	(27,887,075)	(3,404,618)
Net cash provided (used) by operating activities	<u>26,335,223</u>	<u>21,355,853</u>	<u>(12,980,398)</u>	<u>357,669</u>	<u>35,068,347</u>	<u>(1,723,249)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	-	42,471	10,905,684	235,712	11,183,867	-
Taxes received	-	-	-	458,992	458,992	-
Settlements and recoveries	-	222,379	-	-	222,379	-
Interest paid	-	-	-	-	-	1,978
Transfers in	-	-	1,630	1,992,470	1,994,100	5,985,281
Transfers out	(2,176,439)	(641,220)	(8,402)	(2,006,912)	(4,832,973)	(307,205)
Advances from (to) other funds	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(2,176,439)</u>	<u>(376,370)</u>	<u>10,898,912</u>	<u>680,262</u>	<u>9,026,365</u>	<u>5,680,054</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(3,317,474)	(11,007,485)	(10,632,422)	379,708	(24,577,673)	(5,433,945)
Proceeds of sale of capital assets	-	-	-	(12,885)	(12,885.00)	(60,823)
Proceeds of debt issues	-	-	-	-	-	-
Payment to bond escrow agent	-	-	-	-	-	-
Costs of issuance paid	42,469	46,220	-	-	88,689	-
Principal repayments	(818,936)	8,470,396	-	(265,000)	7,386,460	(191,806)
Interest paid	(3,779,081)	(2,424,516)	-	(235,160)	(6,438,757)	(421)
Trustee fees	(2,600)	(2,509)	-	(2,800)	(7,909)	-
Capital grants received	-	-	10,670,078	(41,319)	10,628,759	-
Net cash used by capital and related financing activities	<u>(7,875,622)</u>	<u>(4,917,894)</u>	<u>37,656</u>	<u>(177,456)</u>	<u>(12,933,316)</u>	<u>(5,686,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	733,584	590,434	8,093	56,615	1,388,726	552,623
Net increase in the fair value of investments	(415,836)	(79,538)	(12,025)	(31,109)	(538,508)	(135,356)
Net cash provided by investing activities	<u>317,748</u>	<u>510,896</u>	<u>(3,932)</u>	<u>25,506</u>	<u>850,218</u>	<u>417,267</u>
Net increase (decrease) in cash and cash equivalents	16,600,910	16,572,485	(2,047,762)	885,981	32,011,614	(1,312,923)
CASH AND CASH EQUIVALENTS, JULY 1	98,785,432	41,787,662	6,618,021	7,005,908	154,197,023	48,177,664
PRIOR PERIOD ADJUSTMENT	(14,285,601)	40,380	(38,335)	(738,750)	(15,022,306)	15,992
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 101,100,741</u>	<u>\$ 58,400,527</u>	<u>\$ 4,531,924</u>	<u>\$ 7,153,139</u>	<u>\$ 171,186,331</u>	<u>\$ 46,880,733</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:						
Cash and cash equivalents	\$ 68,854,649	\$ 52,921,646	\$ 4,531,924	\$ 6,549,989	\$ 132,858,208	\$ 34,572,907
Cash and cash equivalents with fiscal agent	22,182,781	4,023,789	-	603,150	26,809,720	305,081
Restricted assets-cash and cash equivalents	10,063,311	1,455,092	-	-	11,518,403	12,002,745
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 101,100,741</u>	<u>\$ 58,400,527</u>	<u>\$ 4,531,924</u>	<u>\$ 7,153,139</u>	<u>\$ 171,186,331</u>	<u>\$ 46,880,733</u>

(continued)

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
Year ended June 30, 2012

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 11,582,628	\$ 16,674,268	\$ (13,881,734)	\$ (2,970,899)	\$ 11,404,263	\$ (19,372,739)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	15,771,300	5,821,148	1,439,223	2,869,467	25,901,138	3,513,676
Rental income	43,941	509,617	88,392	629,627	1,271,577	-
Taxes paid	(89,214)	(13,569)	-	184,030	81,247	-
Special item	(388,651)	(437,482)	-	-	(826,133)	-
Change in assets and liabilities:						
(Increase) in accounts receivable	10,463	(10,213)	(11,005)	(552,504)	(563,259)	(160,050)
(Increase) in utilities receivable	236,260	27,131	-	356,647	620,038	-
(Increase) in taxes receivable	-	-	-	-	-	-
Decrease in due from governments	1,012,381	(1,997,812)	-	-	(985,431)	3,578
(Increase) decrease in prepaid expenses	555,496	1,318	5,312	(1,175)	560,951	412,825
(Increase) in inventories	-	-	-	-	-	(23,014)
(Decrease) in accounts payable and accrued expenses	(2,496,728)	713,574	(624,915)	96,897	(2,311,172)	(23,612)
Increase in accrued salaries and benefits	58,975	34,313	4,329	21,386	119,003	32,936
Increase in compensated absences and OPEB	-	-	-	-	-	11,754,282
(Decrease) in claims liability	-	-	-	-	-	2,138,869
Increase in due to other governments	-	-	-	(43,699)	(43,699)	-
Increase in due to other funds	-	-	-	(155,656)	(155,656)	-
Increase in deferred revenues	(12,073)	(351)	-	(76,452)	(88,876)	-
Increase (decrease) in refundable deposits	50,445	33,911	-	-	84,356	-
Total adjustments	<u>14,752,595</u>	<u>4,681,585</u>	<u>901,336</u>	<u>3,328,568</u>	<u>23,664,084</u>	<u>17,649,490</u>
Net cash provided (used) by operating activities	<u>\$ 26,335,223</u>	<u>\$ 21,355,853</u>	<u>\$ (12,980,398)</u>	<u>\$ 357,669</u>	<u>\$ 35,068,347</u>	<u>\$ (1,723,249)</u>

NONCASH INVESTING, CAPITAL AND FINANCING
ACTIVITIES:

Capital assets transferred in	\$ 103,081	\$ 958,919	\$ 10,670,078	\$ 289,715	\$ 12,021,793	\$ 3,527
Developer infrastructure contributions						
Amortization of bonds discount and deferred amount on refunding						

The notes to basic financial statements are an integral part of this statement.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

Certain provisions of the Installment Purchase Contract and the Trust Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of such documents.

DEFINITIONS

All capitalized terms not defined below have the meanings set forth in the Trust Agreement or the Installment Purchase Contract.

“Act” means the Joint Exercise of Powers Act, constituting Chapter 5 of Title 1 of Division 7 of the California Government Code (Sections 6500 et seq.) as amended and supplemented to the date of the Trust Agreement.

“Bond Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the City of Modesto and the Trustee dated the date of issuance and delivery of the Series 2013G Water Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Depository” means Wells Fargo Bank, National Association, as trustee, and its successors and assigns.

“Domestic Water Bonds” means the outstanding Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F and the Series 2013G Water Bonds.

“Domestic Water Contract” means the Installment Purchase Contract, the Series F Installment Purchase Contract, Domestic Water Swap Contracts, and all contracts of the District authorized and executed by the District under and pursuant to the Law, the Domestic Water Installment Payments under which are on a parity with the Series G Domestic Water Installment Payments and are secured by a pledge of and lien on the Treatment and Delivery Revenues.

“Domestic Water Installment Payments” means: (1) in connection with the financing of the Domestic Water System, the installment payments of interest and principal scheduled to be paid by the District, and (2) Domestic Water Swap Installment Payments, under and pursuant to the Domestic Water Contracts.

“Domestic Water Project” means the acquisition, design, construction and installation of certain initial facilities, including diversion facilities, water treatment facilities, pipelines, pumps, storage facilities and other improvements, comprising the original project component of the Domestic Water System as described in the Installment Purchase Contract.

“Domestic Water Service” means the treated water furnished, made available or sold by the Domestic Water System.

“Domestic Water Swap Contracts” means all interest rate swap contracts entered into by the Authority and payable from Domestic Water Swap Installment Payments.

“Domestic Water Swap Installment Payments” means regularly scheduled payments and termination payments, if any, made to third-party counterparties pursuant to interest rate swap agreements, including but not limited to, the Series 2007F Swap Contract Payments.

“Domestic Water System” means all facilities related to the treatment, transmission, storage, distribution and pumping and all other properties, structures or works for the treatment, transmission, storage, distribution and pumping of domestic water and all rights to obtain, control or receive domestic water services heretofore or hereafter acquired or constructed by the District together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

“Federal Securities” means any of the following:

1. Cash.
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series “SLGs”)
3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities
4. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book entry form are acceptable.
5. Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.
6. U.S. Obligation issued by the following agencies which are backed by the full faith and credit of the U.S.
 - a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 - b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
 - c. Federal Financing Bank
 - d. General Services Administration
Participation certificates
 - e. U.S. Maritime Administration
Guaranteed Title XI financing
 - f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures – U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

“Installment Purchase Contract” means the Installment Purchase Contract by and between the District and the Authority dated as of November 1, 1992, as amended and restated as of July 1, 1995 and as further amended and restated as of February 1, 1998 and as further amended and restated as of August 1, 2013, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

“Insured Series 2013G Water Bonds” means Series 2013G Water Bonds maturing on September 1, 20__ through and including September 1, 20__.

“Interest Payment Date” means _____ 1, 20__, and each March 1 and September 1 thereafter.

“Law” means the Irrigation District Law of the State of California (being Division 11 of the Water Code of the State of California, as amended) and all laws amendatory thereof or supplemental thereto.

“Maintenance and Operation Costs of the Domestic Water System” shall mean the costs set forth in Sections 14.2, 14.3, 14.4, 14.5, 14.6 and 14.7 of the Treatment and Delivery Agreement and similar costs related to the Domestic Water System.

“Maximum Annual Series G Domestic Water Installment Payments” means the greatest annual Series G Domestic Water Installment Payment payable in any year ending on September 1 during the period beginning with the then current year and ending with the year ending on September 1, 20__.

“Municipal Bond Insurance Policy” means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of the principal of and interest on the Insured Series 2013G Water Bonds when due.

“Net Proceeds” means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

“Permitted Investments” means any of the following which at the time are legal investments under the laws of the State of California for moneys held under the Trust Agreement and then proposed to be invested therein:

A. Direct obligations of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

1. United States Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (“FHA”)

5. General Services Administration
Participation certificates
6. Government National Mortgage Association (“GNMA” or “Ginnie Mae”)
GNMA – guaranteed mortgage-backed bonds
GNMA – guaranteed pass-through obligations
7. United States Maritime Administration
Guaranteed Title XI financing
8. United States Department of Housing and Urban Development (“HUD”)
Project Notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”)
Participation Certificates
Senior debt obligations
3. Federal National Mortgage Association (“FNMA” or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations
4. Senior Loan Marketing Association (“SLMA” or “Sallie Mae”)
Senior debt obligations
5. Resolution Funding Corporation (“REFCORP”) obligations
6. Farm Credit System
Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m,” or

“AA m” and if rated by Moody’s, rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks (including affiliates of the Trustee), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including Guaranteed Investment Contracts, Forward Purchase Agreements and Reserve Fund Put Agreements.

H. Commercial paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1+” by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime – 1” or “A3” or better by Moody’s and “A-1+” or “A” or better by S&P.

K. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

a. Repos must be between the municipal entity and a dealer bank or securities firm

(1) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor’s Ratings Group and Moody’s, or

(2) Banks rated “A” or above by Standard & Poor’s Ratings Group and Moody’s Investor Services.

b. The written repo contract must include the following:

(1) Securities which are acceptable for transfer are:

(a) Direct U.S. governments

(b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

(2) The term of the repo may be up to 30 days

(3) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) The trustee has a perfected first priority security interest in the collateral.

(5) Valuation of Collateral

(a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(b) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. Legal opinion which must be delivered to the municipal entity:

Repo meets guidelines under state law for legal investment of public funds.

L. Any state administered pool investment fund in which the District is statutorily permitted or required to invest, including, but not limited to participation in the Local Agency Investment Fund (LAIF).

“Prior Water Bonds” means the Authority’s unpaid Domestic Water Project Refunding Revenue Bonds, Series 1998D.

“Project Fund” means the Modesto Irrigation District Domestic Water Project Fund, Series 2013G established pursuant to the Trust Agreement.

“Reserve Policy” means the municipal bond debt service reserve insurance policy issued by the Bond Insurer guaranteeing certain payments into the Series 2013G Reserve Fund as provided therein and subject to the limitations set forth therein.

“Revenues” means all Installment Payments and other payments made by the District and received by the Authority pursuant to the Installment Purchase Contract and all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) pursuant to the Trust Agreement.

“Series G Domestic Water Installment Payments” means the Series G Domestic Water Installment Payments scheduled to be paid pursuant to the Installment Purchase Contract.

“Series 2007F Swap Counterparty” means JPMorgan Chase Bank, N.A., as assignee of Bear Stearns Capital Markets, and any successors and assigns.

“Series 2007F Swap Contract” means, collectively, the ISDA Master Agreement, two Confirmations, the Credit Support Annex and the Schedule, each between the Authority and the Series 2007F Swap Counterparty, and dated June 5, 2007, as originally executed and as they may from time to time be amended or supplemented in accordance with their terms.

“Series 2007F Swap Contract Payments” means regularly scheduled payments and termination payments, if any, due to the Series 2007F Swap Counterparty, under the Series 2007F Swap Contract.

“Series 2013G Reserve Fund” means the Series 2013G Reserve Fund established pursuant to the Installment Purchase Contract.

“Series 2013G Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the Maximum Annual Series G Domestic Water Installment Payments.

“Series 2013G Revenue Fund” means the Series 2013G Revenue Fund established pursuant to the Trust Agreement.

“Series 2013G Water Bonds” means the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, issued pursuant to the Trust Agreement.

“Tax Certificate” means the Tax Certificate and Agreement, if any, delivered by the Authority and the District at the time of the issuance and delivery of the Series 2013G Water Bonds, as the same may be amended or supplemented by its terms.

“Treatment and Delivery Agreement” means the Amended and Restated Treatment and Delivery Agreement, executed and delivered during 2005 by the District and the City of Modesto, as amended by the Financing Amendments to Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007, by and between the District and the City of Modesto, as it may be further amended from time to time in accordance with its terms.

“Treatment and Delivery Revenues” means the Debt Service portion of the total sum to be paid by the City of Modesto as set forth in the Treatment and Delivery Agreement.

“Trust Agreement” means the Trust Agreement, dated as of August 1, 2013, by and among the Trustee, the District and the Authority, pursuant to which the Authority has issued its Series 2013G Water Bonds.

SUMMARY OF INSTALLMENT PURCHASE CONTRACT

Acquisition of the Domestic Water Project

The District transfers the property, rights and interests in the Domestic Water Project to the Authority for the purpose of acquiring, designing, constructing, improving and installing the Domestic Water Project and agrees to purchase the Domestic Water Project from the Authority at the Purchase Price set forth in the Installment Purchase Contract. The Authority caused the Domestic Water Project to be acquired, designed, constructed, improved and installed by the District as its agent. The District entered into contracts and, as agent for the Authority, provided for the complete acquisition, design, construction, improvement and installation of the Domestic Water Project. The District and the Authority agree that the District caused the acquisition, design, construction, improvement and installation of the Domestic Water Project to be diligently performed and that the District used its best efforts to cause the acquisition, design, construction, improvement and installation of the Domestic Water Project to be completed. The Authority shall be under no liability of any kind or character whatsoever for the payment of any cost of the Domestic Water Project and all such costs and expenses have been or shall be paid by the District, regardless of whether the funds deposited in the Project Fund are sufficient to cover all such costs and expenses. Upon payment of the Purchase Price by the District in full as provided in the Installment Purchase Contract and the application of such Purchase Price to the refunding and defeasance of the Prior Water Bonds, the transfer of the property, rights and interests to the District from the Authority described in the Installment Purchase Contract shall be ratified and confirmed in all respects without any further action by the District or the Authority.

Domestic Water Installment Payments

Purchase Price. (a) The Purchase Price to be paid under the Installment Purchase Contract by the District to the Authority is the sum of the aggregate principal amount of the District’s obligations thereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date of the Installment Purchase Contract over the term thereof, subject to prepayment as provided therein.

(b) The principal amount of the Series G Domestic Water Installment Payments to be made by the District under Installment Purchase Contract is \$93,190,000.

(c) The interest to accrue on the unpaid balance of such principal amounts of Series G Domestic Water Installment Payments is as specified in the Installment purchase Contract and shall be paid by the District as and constitutes interest paid on the principal amount of the District’s obligations thereunder.

Series G Domestic Water Installment Payments. The District shall, subject to any rights of prepayment provided in the Installment Purchase Contract, pay the Trustee, on behalf of the Authority, the Purchase Price in Series G Domestic Water Installment Payments on each Domestic Water Installment Payment Date for the payment of principal of (whether at maturity or upon redemption or acceleration), redemption premium, if any, and interest on the Series 2013G Water Bonds until the principal of, redemption premium, if any, and interest on the Series 2013G Water Bonds shall have been fully paid or provision for the payment thereof have been made in accordance with the Trust Agreement, in immediately available funds, for deposit in the Series 2013G Revenue Fund.

Each Domestic Water Installment Payment shall be payable to the Authority on or before the 15th day of the month before its due date in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under the Installment Purchase Contract, such payment shall continue as an obligation of the District until such amount has been fully paid, and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Domestic Water Installment Payments if paid in accordance with its terms.

Obligation to Pay. The obligation of the District to make the Domestic Water Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Contract), the District will not discontinue or suspend any Domestic Water Installment Payments required to be made by it under Installment Purchase Contract when due, whether or not the Domestic Water Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement, including but not limited to the Treatment and Delivery Agreement, for any cause whatsoever; provided, however that in accordance with the Installment Purchase Contract, the District's obligation to so make the Domestic Water Installment Payments is payable solely from Treatment and Delivery Revenues.

Authority Option to Repay. The Authority may, at any time, repay to the District an amount equal to that amount required to be deposited by the District to discharge its obligations under the Installment Purchase Contract, which amount, if so paid, the District shall so deposit in the time, form and manner specified thereunder.

Revenues

All Treatment and Delivery Revenues are irrevocably pledged to the payment of the Domestic Water Installment Payments as provided in the Installment Purchase Contract, and the Treatment and Delivery Revenues shall not be used for any other purpose while any of the Domestic Water Installment Payments remain unpaid; provided, however, that out of the Treatment and Delivery Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Contract. This pledge shall constitute a first lien on the Treatment and Delivery Revenues for the payment of the Domestic Water Installment Payments and all other Domestic Water Contracts and Domestic Water Bonds in accordance with the terms of the Installment Purchase Contract; provided, however, that the foregoing pledge shall secure any portion of Domestic Water Swap Installment Payments that constitute termination payments under a Domestic Water Swap Contract on a second lien subordinate basis, and such security for such termination payments shall be junior to the pledge of Treatment and Delivery Revenues securing other Domestic Water Installment Payments.

Allocation of Treatment and Delivery Revenues. In order to carry out and effectuate the pledge and lien set forth in the Installment Purchase Contract, all Treatment and Delivery Revenues shall be deposited when and as available or received in the Modesto Irrigation District Domestic Water Project Revenue Fund (the "Domestic Water Project Revenue Fund"), which the District agrees and covenants to maintain so long as any Domestic Water Installment Payments remain unpaid, and all moneys in the Domestic Water Project Revenue Fund shall be so held in trust and applied and used solely as provided in the Installment Purchase Contract. All moneys in the Domestic Water Project Revenue Fund shall be set aside by the District at the following times in the following respective special funds (each of which is established under the Installment Purchase Contract and each of which is held by the District and each of which the District agrees and covenants to maintain so long as any Domestic Water Installment Payments remain unpaid) in the following order of priority:

- (i) Installment Payment Fund, including the Series G Domestic Water Installment Payment Account within such fund (to be held by the District); and
- (ii) Series 2013G Reserve Fund (to be held by the Depository).

All moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes authorized in the Installment Purchase Contract.

Installment Payment Fund. On or before the last day of each month, the District shall, from the moneys in the Domestic Water Project Revenue Fund pay, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, for deposit in the Series G Domestic Installment Account, within the Installment Payment Fund, (i) the amount of 1/6 of the aggregate amount of interest becoming due on the Series G Domestic Water Installment Payments during the next succeeding six months; and (ii) for deposit into such fund or account as may be provided therefor, in the case of Domestic Water Bonds or Domestic Water Installment Payments other than the Series G Domestic Water Installment Payments, a sum equal to the amount of 1/6 of the aggregate amount of interest becoming due on such Domestic Water Contracts and Domestic Water Bonds during the next succeeding six months, plus (iv) 1/12 of the aggregate amount of principal becoming due (due to maturity, mandatory sinking fund payment or mandatory prepayment or otherwise) on the Series G Domestic Water installment Payments, Domestic Water Contracts and Domestic Water Bonds during the next succeeding twelve months, but excluding from such amounts of principal any series or issue of such Domestic Water Bonds or Domestic Water Contracts having 25% or more of the aggregate principal amount of such series or issue due in any one year if such series or issue is secured by the proceeds of a letter of credit, revolving credit agreement or similar credit arrangement; provided, that, so long as the payments to be made by the Series 2007F Counterparty pursuant to the Series 2007F Swap Contract are being made on a full and timely basis, interest then accruing on the unpaid balance of the principal amount of the Series G Domestic Water Installment Payments shall be assumed to the fixed rate of interest payable by the Authority under the Series 2007F Swap Contract.

No deposit need be made in the Series G Domestic Water Installment Payment Account if each amount available and contained in each such account is at least equal to the amount of interest becoming due under the Installment Purchase Contract on the next succeeding Domestic Water Installment Payment Date (computed for purposes of this paragraph in the manner specified in the preceding paragraph), plus the amount of principal becoming due under the Installment Purchase Contract on the next succeeding Domestic Water Installment Payment Date for each such series.

All moneys in the Series G Domestic Water Installment Payment Account shall be withdrawn by the District solely for the purpose of paying the Series G Domestic Water Installment Payments to the Authority as they become due and payable in accordance with the Installment Purchase Contract; provided, however, that such amounts as the District determines in the Tax Certificate to be necessary to comply with the Installment Purchase Contract may be withdrawn by the District and transferred and applied pursuant thereto.

On the last day of each month, all remaining moneys in the Domestic Water Project Revenue Fund shall be applied, subject to the requirements of either the Trust Agreement or the Installment Purchase Contract relating to the use of surplus moneys in connection with any surety bonds, to pay any amount due and owing to the Bond Insurer under the Municipal Bond Insurance Policy or the Reserve Policy.

Series 2013G Reserve Fund. The Authority, for the benefit of the District, shall cause to be deposited with the Depository into the Series 2013G Reserve Fund the Reserve Policy in a face amount, to be calculated by the District and filed with the Trustee, equal to the Series 2013G Reserve Fund Requirement. On or before the last day of each month, the District shall, from the remaining moneys in the Domestic Water Project Revenue Fund, thereafter transfer, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, to the Depository for deposit in the Series 2013G Reserve Fund in the case of the Series G Domestic Water Installment Payments and deposit into such reserve fund or account as may be provided therefor, in the case of Domestic Water Bonds or Domestic Water Installment Payments other than the Series G Domestic Water Installment Payments, that sum, if any, equal to one-twelfth (1/12) of the amount necessary to restore the Series 2013G Reserve Fund to an amount equal to the Series 2013G Reserve Fund Requirement or such other reserve fund or account to an amount equal to the amount required to be maintained

therein on the next succeeding September 1; provided, however, the District may substitute or otherwise provide for the Series 2013G Reserve Fund or such other fund or account by a policy of insurance or surety bond issued by a municipal bond insurance company, the claims paying ability of which is rated at the time of deposit thereof into the Series 2013G Reserve Fund not lower than the then rating on the Series 2013G Water Bonds by any of Moody's, S&P or Fitch, or by letter of credit or other credit facility issued by a bank or other financial institution the obligations of which are rated at the time of deposit thereof into the Series G Reserve Fund not lower than the then rating on the Series 2013G Water Bonds by any of Moody's, S&P or Fitch, in each case, if such rating agency is then rating obligations of the District.

No transfer need be made in the Series 2013G Reserve Fund if the amount available and contained therein is at least equal to the Series 2013G Reserve Fund Requirement.

If at any time the amount available and contained in the Series 2013G Reserve Fund exceeds the Series 2013G Reserve Fund Requirement and if the District is not then in default under the Installment Purchase Contract, the Depository shall withdraw the amount of such excess from the Series 2013G Reserve Fund and shall deposit such amount in the Revenue Fund, and for this determination the Depository shall make a valuation of the Series 2013G Reserve Fund as often as it may deem appropriate, and in any event on or before September 1 in each year. Except for such withdrawals, all moneys in the Series 2013G Reserve Fund shall be used and withdrawn by the Depository solely for the purpose of making the Series G Domestic Water Installment Payments in the event that no other moneys of the District are available therefor.

The following provisions shall govern notwithstanding anything to the contrary set forth in the Installment Purchase Contract.

(i) The Authority and the District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by Assured Guaranty Municipal Corp. ("AGM") and shall pay interest thereon from the date of payment by AGM at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2013G Water Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as AGM shall specify. If the interest provisions of this subsection (i) shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Installment Purchase Contract, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party to the Installment Purchase Contract, be applied as additional interest for any later periods of time when amounts are outstanding under the Installment Purchase Contract to the extent that interest otherwise due under the Installment Purchase Contract for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by AGM, with the same force and effect as if the Authority and the District had specifically designated such extra sums to be so applied and AGM had agreed to accept such extra payment(s) as additional interest for such later periods.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to AGM shall be credited first to interest due, then to the expenses due and then to principal due. As to the extent that payments are made to AGM on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs shall be secured by a valid lien on all revenues and other collateral pledged as security for the Series 2013G Water Bonds (subject only to the priority of payment provisions set forth under the Installment Purchase Contract).

All cash and investments in the Series 2013G Reserve Fund shall be transferred to the Series G Domestic Water Installment Payment Account for payment of debt service on the Series 2013G Water Bonds before any drawing may be made on the Reserve Policy or any other credit facility credited to the Series 2013G Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Series 2013G Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Series 2013G Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(ii) If the Authority and the District shall fail to pay any Policy Costs in accordance with the requirements of subsection (i) above, AGM shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Installment Purchase Contract other than (A) acceleration of Series G Domestic Water Installment Payments or (B) remedies which would adversely affect owners of the Series 2013G Water Bonds.

(iii) The Installment Purchase Contract shall not be discharged until all Policy Costs owing to AGM shall have been paid in full. The Authority's obligation to pay such amounts shall expressly survive payment in full of the Series 2013G Water Bonds.

On the last day of each month, all remaining moneys in the Domestic Water Project Revenue Fund shall be applied, subject to the requirements of either the Trust Agreement or the Installment Purchase Contract relating to the use of surplus moneys in connection with any surety bonds, to pay the portion of the Series 2007F Swap Contract Payments constituting termination payments, if any, and thereafter as provided below, all remaining moneys in the Domestic Water Project Revenue Fund shall be deposited by the District in the General Fund for expenditure for any lawful purpose of the District.

Investments. Any moneys held by the District in the Domestic Water Project Revenue Fund and in the Installment Payment Fund shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement under the Installment Purchase Contract. Any moneys held by the Depository in the Series 2013G Reserve Fund shall be invested by the Depository in Permitted Investments, upon the written request of the District or the Authority or upon telephone request of the District or the Authority promptly confirmed in writing; provided that absent directions from the District as to investment of funds, the Depository shall invest in Permitted Investments described in clause (D) of the definition thereof. All investment earnings derived from the investment of funds on deposit in any fund or account created under the Installment Purchase Contract shall be retained in such fund or account, or otherwise applied in accordance with the Written Request of the District or the Authority.

Covenants of the District

Compliance with Installment Purchase Contract and Ancillary Agreements. The District will punctually pay the Series G Domestic Water Installment Payments in strict conformity with the terms of the Installment Purchase Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by it, and will not terminate the Installment Purchase Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Domestic Water Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Contract required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the District or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement and the Treatment and Delivery Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the Installment Purchase Contract, the Treatment and Delivery Agreement and the Trust Agreement that, subject to the Installment Purchase Contract, each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the purchase of and payment for the Domestic Water Project Phase Two by the District pursuant to, and in accordance with, and as authorized under the Law.

Against Encumbrances. The District will not make any pledge of or place any lien on the Treatment and Delivery Revenues except as may be required to complete the Domestic Water System.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Domestic Water System or any part thereof essential to the proper operation of the Domestic Water System or to the maintenance of the Treatment and Delivery Revenues. The District will not enter into any agreement or lease which impairs the operation of the Domestic Water System or any part thereof necessary to secure adequate Treatment and Delivery Revenues for the payment of the Domestic Water Installment Payments, or which would otherwise impair the rights of the Authority with respect to the Treatment and Delivery Revenues or the operation of the Domestic Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Domestic Water System, or any material or equipment which has become worn out, may be sold at not less than the market value thereof if such sale will not reduce the Treatment and Delivery Revenues and if the proceeds of such sale are deposited in the Revenue Fund.

Against Competitive Facilities. The District will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water system competitive with the Domestic Water System.

Against Federal Income Taxation. The District will not directly or indirectly use or permit the use of any proceeds of the obligation provided in the Installment Purchase Contract or any other funds of the District or take or omit to take any action that would cause such obligation to be an "arbitrage bond" within the meaning of Section 148(a) of the Code or a "federal-guaranteed obligation" within the meaning of Section 149(b) of the Code or a "private activity bond" as described in Section 141 of the Code. The District will not allow 10% or more of the proceeds of the obligations provided in the Installment Purchase Contract to be used in the trade or business of any nongovernmental units and will not loan 5% or more of the proceeds of the obligations provided therein to any nongovernmental units.

To that end, as long as any Series G Domestic Water Installment Payments are unpaid, the District will comply with all requirements of such sections of the Code to the extent applicable to the obligations provided in the Installment Purchase Contract. In the event that at any time the District is of the opinion that it is necessary to

restrict or to limit the yield on the investment of any moneys held by the District under the Installment Purchase Contract or by the Trustee under the Trust Agreement, the District shall so instruct the Trustee in writing, and the Trustee, as appropriate, shall act in accordance with such instructions.

The District and the Authority covenant that they will at all times do and perform all acts necessary or desirable in order to assume that the interest component of the Series G Domestic Water Installment Payments will not be included in gross income of the holders of the Certificates for federal income tax purposes and will take no action that would result in such interest being so included. The District covenants to abide by all of the covenants, terms and conditions relating to the District set forth in the Trust Agreement.

Notwithstanding any provision of the Installment Purchase Contract, if the District receives an opinion of Bond Counsel that any specified action required under the tax covenants of the Installment Purchase Contract is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Series G Domestic Water Installment Payments or the Series 2013G Water Bonds, the District may conclusively rely on such opinion in complying with the requirements of tax covenants of the Installment Purchase Contract, and the covenants thereunder shall be deemed to be modified to that extent.

Prompt Acquisition and Construction. The District will take all necessary and appropriate steps as agent of the Authority to acquire and construct the Domestic Water Project with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Maintenance and Operation of the Domestic Water System; Budgets. The District will maintain and preserve the Domestic Water System in good repair and working order at all times and will operate the Domestic Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Domestic Water System as they become due and payable. On or before the first date of each Fiscal Year (commencing January 1, 2014), the District will adopt and file with the Authority a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs of the Domestic Water System. Any budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the District with the Authority.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Treatment and Delivery Revenues or any part thereof or on any funds in the hands of the District prior or superior to the lien of the Domestic Water Installment Payments or which might impair the security of the Domestic Water Installment Payments.

Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Domestic Water System and all other contracts affecting or involving the Domestic Water System to the extent that the District is a party thereto.

Insurance. (a) The District will procure and maintain or cause to be procured and maintained insurance on the Domestic Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Domestic Water System) as are usually covered in connection with domestic water systems similar to the Domestic Water System so long as such insurance is available at reasonable costs from reputable insurance companies. In the event of any damage to or destruction of the Domestic Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damages or destroyed portion of the Domestic Water System. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Domestic Water System shall be free and clear of all claims and liens.

If such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds shall be applied in part to the prepayment of Series G Domestic Water Installment Payments as provided

the Installment Purchase Contract and in part to such other fund or account as may be appropriate and used for the retirement of Domestic Water Contracts in the same proportion that the aggregate unpaid principal balance of Series G Domestic Water Installment Payments then bears to the aggregate unpaid principal amount of such Domestic Water Contracts. If such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, are sufficient to enable the District to retire the entire obligation evidenced by the Installment Purchase Contract prior to the final due date of the Series G Domestic Water Installment Payments as well as the entire obligations evidenced by Domestic Water Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Domestic Water System, and thereupon such Net Proceeds shall be applied to the prepayment of Series G Domestic Water Installment Payments as provided in the Installment Purchase Contract and to the retirement of such Domestic Water Contracts.

(b) If the conditions set forth in subparagraph (a) above are not met, then such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, shall be applied in part to the prepayment of the Series G Domestic Water Installment Payments and the Series 2013G Water Bonds as provided in the Installment Purchase Contract, and in part to such other fund or account as may be appropriate and used for the retirement of the other Domestic Water Bonds and other Domestic Water Contracts in the same proportion that the aggregate unpaid principal balance of such Domestic Water Bonds and Domestic Water Contracts then bears to the aggregate unpaid principal balance of the Series G Domestic Water Installment Payments.

(c) The District will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Authority, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with domestic water systems similar to the Domestic Water System; provided that any insurance required pursuant to the Installment Purchase Contract may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with domestic water systems similar to the Domestic Water System.

All policies of insurance required to be maintained in the Installment Purchase Contract shall provide that the Authority will be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Protection of Security and Rights of the Authority. The District will preserve and protect the security of the Installment Purchase Contract and the rights of the Authority to the Series G Domestic Water Installment Payments thereunder and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Domestic Water System or any part thereof or the Treatment and Delivery Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Domestic Water System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Amount of Rates and Charges. The District will fix, prescribe and collect rates and charges for the Domestic Water Service which are reasonably fair and nondiscriminatory and which, together with all other lawfully available funds of the District, will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Domestic Water System for such Fiscal Year; and (ii) debt service on all Domestic Water Bonds and all Domestic Water Installment Payments for such Fiscal Year, in each case only to the extent they are then unpaid or are not discharged in accordance with their respective terms.

Special Appropriation. In the event that Revenues (as defined in the Trust Agreement) are insufficient to pay in full any amount then due and payable with respect to the Series 2013G Water Bonds, an Authorized District Representative (as defined in the Trust Agreement) shall submit to the Board of Directors of the District a special budget item requesting a special appropriation from the Board of Directors of the District of the amount of such insufficiency; provided, however, that the Board of Directors of the District shall have absolute discretion in

determining whether such a special appropriation shall be made, and a determination not to make a special appropriation shall not in and of itself constitute an Event of Default.

Eminent Domain Proceeds. If all or any part of the Domestic Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the District obtains and files with the Authority an Engineer's Report showing (i) the estimated loss of annual Treatment and Delivery Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Domestic Water System proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Treatment and Delivery Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such Engineer's Report filed with the Authority, determines that the estimated additional annual Treatment and Delivery Revenues will sufficiently offset the estimated loss of annual Treatment and Delivery Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations under the Installment Purchase Contract will not be substantially impaired (which determination shall be final and conclusive) then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such Engineer's Report and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose shall be deposited in the Domestic Water Project Revenue Fund.

(b) If the conditions set forth in paragraph (a) above are not met, then such Net Proceeds shall be applied in part to the prepayment of Domestic Water Installment Payments as provided in the Installment Purchase Contract and in part to such other fund or account as may be appropriate and used for the retirement of Domestic Water Bonds and Domestic Water Contracts in the same proportion which the aggregate unpaid principal balance of Domestic Water Installment Payments then bears to the aggregate unpaid principal amount of such Domestic Water Bonds and Domestic Water Contracts.

Assignment of Authority's Rights. As security for the payment of the Domestic Water Bonds, the Authority will assign to the Trustee the Authority's rights under the Installment Purchase Contract, including the right to receive payments thereunder, and the Authority directs the District to make the payments required thereunder directly to the Trustee. The District consents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the District and the Authority or the Trustee.

Events of Default and Remedies of the Authority

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say:

(1) if default shall be made in the due and punctual payment of any Domestic Water Installment Payment or any Domestic Water Contract or Domestic Water Bond when and as the same shall become due and payable;

(2) if default shall be made by the District in the performance of any of the other agreements or covenants required in the Installment Purchase Contract to be performed by it, and such default shall have continued for a period of 60 days after the District shall have been given notice in writing of such default by the Authority; or

(3) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default specified in clause (1) above, the Authority shall, and for any other such Event of Default the Authority may, by notice in writing to the District, declare the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Installment Purchase Contract to the contrary notwithstanding. The Installment Purchase Contract, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Domestic Water Installment Payments or the unpaid payment of any other Domestic Water Contract or Domestic Water Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Domestic Water Installment Payments or such Domestic Water Contract or Domestic Water Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All moneys in the Series G Domestic Water Installment Payment Account of the Installment Payment Fund upon the date of the declaration of acceleration by the Authority as provided in the Installment Purchase Contract and all Treatment and Delivery Revenues thereafter received shall be applied in the following order:

First, to the payment, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, of the fees, costs and expenses of the Trustee, if any, in carrying out the provisions of the Installment Purchase Contract, including reasonable compensation to its accountants and counsel; and

Second, to the payment of the entire principal amount of the unpaid Domestic Water Installment Payments and the unpaid principal amount of all Domestic Water Bonds and Domestic Water Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Domestic Water Installment Payments and such Domestic Water Bonds and Domestic Water Contracts if paid in accordance with their respective terms.

Third, to the payment of any amounts due and owing to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy.

Fourth, to the payment of the portion of Domestic Water Swap Installment Payments constituting termination payments, if any.

Other Remedies of the Authority. The Authority shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or such person's duties under the Law and the agreements and covenants required to be performed by it or such person contained in the Installment Purchase Contract;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

(c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Non-Waiver. Nothing in the Installment Purchase Contract shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Domestic Water Installment Payments to the Authority at the respective due dates or upon prepayment from the Treatment and Delivery Revenues and the other funds in the Installment Purchase Contract pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied therein.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the Law or by the Installment Purchase Contract may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the District and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Installment Purchase Contract conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given thereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

Discharge of Obligations

Discharge of Obligations. When

(a) all or any portion of not less than \$100,000 of the Domestic Water Installment Payments shall have become due and payable in accordance with the Installment Purchase Contract or a written notice of the District to prepay all or any portion of not less than \$100,000 of the Domestic Water Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Domestic Water Installment Payment Date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of not less than \$100,000 of the Domestic Water Installment Payments sufficient moneys and Permitted Investments, issued by the United States of America and described in clause (i) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Domestic Water Installment Payments to their respective Domestic Water Installment Payment Dates or to their prepayment date or dates as the case may be;

(c) provision shall have been made for paying all fees and expenses of the Trustee so long as such Domestic Water Installment Payments shall remain unpaid, and

(d) provision shall have been made for paying all amounts due to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy, and

then and in that event, if an opinion of Special Counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to the Installment Purchase Contract shall not adversely affect the exclusion of the interest portion of the Domestic Water Installment Payments from gross income for federal income tax purposes, the right, title and interest of the Authority in the Installment Purchase Contract and the obligations of the District thereunder shall, with respect to all or such portion of the Domestic Water Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to

the payment of such Domestic Water Installment Payments). In such event, upon request of the District, the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the District, as an overpayment of Domestic Water Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Purchase Contract other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Domestic Water Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Domestic Water Installment Payments and shall be applied by the Trustee to the payment of the Domestic Water Installment Payments of the District.

SUMMARY OF THE TRUST AGREEMENT

Revenues

Pledge of Revenues. Pursuant to the Trust Agreement, all Revenues and any other amounts (including proceeds of the sale of the Series 2013G Water Bonds) held by the Trustee in any fund or account established thereunder (other than amounts on deposit in the Rebate Fund are irrevocably pledged to the payment of the interest on and principal of the Series 2013G Water Bonds as provided therein, and the Revenues shall not be used for any other purpose while any of the Series 2013G Water Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. Such pledge shall constitute a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Series 2013G Water Bonds in accordance with the terms of the Trust Agreement.

Receipt and Deposit of Revenues. (a) The Authority agrees and covenants that all Revenues when and as received shall be received by the Authority in trust for the benefit of the Holders and shall be deposited when and as received by the Authority in the Series 2013G Revenue Fund. All Revenues shall be accounted for through and held in trust in the Series 2013G Revenue Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only as provided in the Trust Agreement. All Revenues shall be allocated, applied and disbursed solely for the purposes and uses set forth in the Trust Agreement, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

(b) Subject to the Installment Purchase Contract and the Trust Agreement, all money in the Series 2013G Revenue Fund shall be set aside by the Trustee in the following respective special accounts within the Series 2013G Revenue Fund in the following order of priority:

(i) Interest Account. The Trustee on or before the Interest Payment Date shall deposit in the Interest Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of interest coming due and payable on all Outstanding Series 2013G Water Bonds on such Interest Payment Date. Except as provided the Installment Purchase Contract and Trust Agreement, moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series 2013G Water Bonds when due and payable.

(ii) Principal Account. The Trustee on or before September 1 of each year shall deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to the aggregate principal amount of all Outstanding Series 2013G Water Bonds becoming due and payable on such September 1, plus the aggregate amount of all sinking fund payments required to be made with respect to the Series 2013G Water Bonds that are term bonds. Except as provided in the Installment Purchase Contract and the Trust Agreement, moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Series 2013G Water Bonds when due and payable, provided that all sinking fund payments deposited into the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming or paying at maturity the Series 2013G Water Bonds for which such sinking fund payment was made.

(iii) Redemption Account. The Trustee, on the date specified in the Written Request of the District filed with the Trustee pursuant to the Installment Purchase Contract at the time that any prepaid Installment Payment is paid to the Trustee, shall deposit in the Redemption Account that amount of money representing the portion of the Installment Payments designated as prepaid Installment Payments. Except as provided in the Installment Purchase Contract and Trust Agreement, moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of, redemption premiums, if any, and interest on the Series 2013G Water Bonds to be redeemed.

(iv) Surplus Account. The Trustee, on or before September 1 of each year, beginning on September 1, 201_, shall deposit in the Surplus Account all money remaining in the Series 2013G Revenue Fund after the deposits, if any, required by the Installment Purchase Contract and the Trust Agreement and subsections (i), (ii) and (iii) of this section have been made. Amounts on deposit in the Surplus Fund shall initially be applied to pay any amounts due and owing to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy. Once such amounts have been made, then beginning on September 2 of each year, beginning on September 2, 2014, the Trustee, if the District is not then in default under the Trust Agreement and the Installment Purchase Contract, shall disburse the money in the Surplus Account to the District unless the Trustee, in its discretion, shall determine that any money in the Surplus Account is or will be required for the payment of the principal of or interest on the Series 2013G Water Bonds on the next succeeding Interest Payment Date (assuming for the purpose of such determination that the District shall pay when due all Installment Payments required by the Installment Purchase Contract), in which event such money shall be held in the Surplus Account for such purpose.

Project Fund

The Trustee shall establish and maintain the Modesto Irrigation District Domestic Water Project Fund, Series 2013G. The moneys in the Project Fund shall be held by the Trustee in trust and applied to the payment of the costs of issuance of the Series 2013G Water Bonds, fees and premiums for any surety bond, bond insurance or other credit enhancement, the initial fees and expenses of the Trustee, printing costs, legal, accounting and engineering fees and other costs incidental therewith.

Before any payment is made from the Project Fund by the Trustee, there shall be filed with the Trustee a requisition signed by an Authorized District Representative conforming with the requirements of the Trust Agreement, stating with respect to each payment to be made: (1) the requisition number; (2) the name and address of the person to whom payment is due; (3) the purpose for which such payment is to be made; (4) the amount to be paid; (5) that each obligation mentioned therein has been properly incurred and is a proper charge against the Project Fund; and (6) that none of the items for which payment is requested has been previously reimbursed from the Project Fund.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein. Upon receipt of each such requisition, the Trustee shall pay the amount set forth in the Trust Agreement as directed by the terms thereof.

When all costs payable from the Project Fund have been paid, the District shall deliver to the Trustee a Certificate of the District stating that all such costs have been paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such certificate, the Trustee shall transfer any remaining balance in the Project Fund (but less the amount of any such retention) in accordance with a Written Request of the District to be deposited in the Domestic Water Project Revenue Fund established under the Installment Purchase Contract, and the Trustee shall thereupon close the Project Fund.

Investment of Moneys

Subject to the limitations in of the Trust Agreement, any moneys in any of the funds and accounts to be established by the Trustee pursuant to the Trust Agreement shall be invested by the Trustee in Permitted Investments upon the Written Request of the District or upon telephone request of the District promptly confirmed in writing. Moneys in any fund or account (other than the Rebate Fund) shall be invested in Permitted Investments with respect

to which payments of principal thereof and interest thereon are scheduled or otherwise payable not later than the date on which it is estimated that such moneys will be required by the Trustee.

For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at the lower of cost (inclusive of all interest accrued but not paid) or market value. Any interest, profit or loss on such investments shall be credited or charged to the respective funds from which such investments are made.

Assignment to Trustee; Enforcement of Obligations

Pursuant to the Trust Agreement, the Authority transfers, assigns and sets over to the Trustee all of the Installment Payments and other Revenues and any and all rights and privileges it has under the Installment Purchase Contract including, without limitation, the right to collect and receive directly all of the Installment Payments and the right to hold and enforce any security interest, and any Installment Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall take all steps, actions and proceedings required to be taken as provided in any opinion of Bond Counsel delivered to it, reasonably necessary to maintain in force for the benefit of the Owners of the Series 2013G Water Bonds the Trustee's rights in and priority to the following security granted to it for the payment of the Series 2013G Water Bonds: (i) the Trustee's rights as assignee of the Installment Payments and other Revenues and (ii) all other rights and privileges under the Installment Purchase Contract and as beneficiary of any other rights to security for the Series 2013G Water Bonds which the Trustee may receive in the future.

Covenants of the Authority and the Trustee

Punctual Payment and Performance. The Authority will punctually pay out of the Revenues the interest on and the principal of and redemption premiums, if any, to become due on every Series 2013G Water Bond issued under the Trust Agreement in strict conformity with the terms of the Trust Agreement and of the Series 2013G Water Bonds, and will faithfully observe and perform all of the agreements and covenants to be observed or performed by the Authority contained in the Trust Agreement and in the Series 2013G Water Bonds.

Compliance with Installment Purchase Contract and Treatment and Delivery Agreement. The District and the Authority will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract and in the Treatment and Delivery Agreement required to be complied with, kept, observed and performed by the District and the Authority, and the Trustee will, to the extent required under the Trust Agreement, enforce such document against the District in accordance with its terms.

The Authority will not alter, amend or modify the Installment Purchase Contract without the prior written consent of the Trustee and the Bond Insurer. Such consent of the Trustee shall be given only (i) if the Trustee receives an opinion of Bond Counsel which states that such alterations, amendments or modifications will not result in any material impairment of the security given or intended to be given for the payment of the Installment Payments, or (ii) if the Trustee first obtains the written consents of the Owners of at least 60% in aggregate principal amount of the Series 2013G Water Bonds then Outstanding to such alterations, amendments or modifications; provided, however, that the tax covenants of the Installment Purchase Contract may be amended upon receipt of an opinion of Bond Counsel that any specified action required thereunder is no longer required, or some further or different action is required, to maintain the exclusion from federal income tax of interest on the Series 2013G Water Bonds.

The District will not alter, amend or modify the Treatment and Delivery Agreement without the prior written consent of the Trustee and the Bond Insurer. Such consent of the Trustee shall be given only (i) if the Trustee receives a Certificate of the District to the effect that such alterations, amendments or modifications will not result in any material impairment of the security given or intended to be given for the payment of the Installment Payments, or (ii) if the Trustee first obtains the written consent of the Owners of at least 60% in aggregate principal amount of the Series 2013G Water Bonds then Outstanding to such alterations, amendments or modifications.

Observance of Laws and Regulations. The Authority and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Tax Covenants. The District and the Authority each covenant that it will not take any action, or fail to take any action, if any such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Series 2013G Water Bonds under Section 103 of the Code.

Against Encumbrances. So long as any Series 2013G Water Bonds are Outstanding, the Authority will not create or suffer to be created any pledge of or lien on the Installment Payments or other Revenues other than the pledge and lien of the Trust Agreement, and will not issue any bonds, notes or obligations payable from the Installment Payments or other Revenues or secured by a pledge of or charge or lien upon the Installment Payments or other Revenues except the Series 2013G Water Bonds.

Prosecution and Defense of Suits. The Authority will defend against every action, suit or other proceeding at any time brought against the Trustee or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Installment Payments or other Revenues or involving the rights of the Trustee or any Owner under the Trust Agreement; provided, however, that the Trustee or any Owner at its or such Owner's election may appear in and defend any such action, suit or other proceeding. The Authority will indemnify and hold harmless the Trustee and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights under the Trust Agreement or under the Series 2013G Water Bonds, provided that such litigation shall be concluded favorably to such Owners' contentions in the Trust Agreement.

Continuing Disclosure. Neither the District nor the Authority shall have any responsibility or liability to the Owners of the Series 2013G Water Bonds or any other person with respect to the continuing disclosure requirements contained in the Continuing Disclosure Agreement. The Trustee covenants and agrees in the Trust Agreement that it will comply with and carry out all of the provisions applicable to the Trustee of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the City or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2013G Water Bonds, shall) or any Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Continuing Disclosure Agreement or to cause the Trustee to comply with its obligations under the Trust Agreement.

Events of Default and Remedies

Events of Default and Acceleration of Maturities. If one or more of the following events (in the Trust Agreement called "Events of Default") shall happen, that is to say:

(a) if default shall be made in the due and punctual payment of the interest on any Series 2013G Water Bond when and as the same shall become due and payable;

(b) if default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Series 2013G Water Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Authority in the performance of any of the other agreements or covenants required in to be performed by the Authority, and such default shall have continued for a period of 60 days after the Authority shall have been given notice in writing of such default by the Trustee;

(d) if an Event of Default (as that term is defined in the Installment Purchase Contract) shall happen;
or

(e) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default the Trustee may, and shall, at the direction of the Owners of not less than a majority in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, by notice in writing to the Authority, declare the principal of all Series 2013G Water Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Series 2013G Water Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Owners of any such Event of Default which is continuing. Such notice shall include a reference to or a summary of the rights and remedies available to the Owners as set forth in the Trust Agreement.

This provision, however, is subject to the condition that if at any time after the principal of the Series 2013G Water Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the Authority shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Series 2013G Water Bonds and all principal of the Series 2013G Water Bonds matured prior to such declaration, with interest at the rate borne by such Series 2013G Water Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee (including but not limited to the fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Series 2013G Water Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Owners of not less than a majority in aggregate principal amount of Series 2013G Water Bonds then Outstanding, by written notice to the Authority and to the Trustee, may on behalf of the Owners of all the Series 2013G Water Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default shall happen and be continuing, the Trustee in its discretion may, and shall, at the direction of the Owners of a majority in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, proceed to protect or enforce its rights or the rights of the Owners of Series 2013G Water Bonds under the Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the Trust Agreement.

Actions by Trustee as Attorney-in-Fact. Any action, proceeding or suit which any Owner shall have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Owners, whether or not the Trustee is an Owner, and the Trustee is appointed by the Trust Agreement (and the successive Owners, by taking and holding the Series 2013G Water Bonds issued thereunder, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Owners for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Owners as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

Limitation on Owners' Right to Sue. No Owner of any Series 2013G Water Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least a majority in aggregate principal amount of all the Series 2013G Water Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Trust Agreement or to institute such suit, action or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

No Liability by the District to the Owners. Except for the payment when due of the Installment Payments and the performance of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or in the Trust Agreement, the District shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, issuance, execution, delivery or transfer of the Series 2013G Water Bonds or to the disbursement of the Revenues by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by the District or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or in the Trust Agreement.

The Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

No provision of the Trust Agreement shall be construed to relieve the Trustee from liability for its own negligent action or its own negligent failure to act, except that:

(a) Prior to such an Event of Default under the Trust Agreement and after the curing of all Events of Default which may have occurred,

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of the Trust Agreement, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed in the Trust Agreement, upon any certificate or opinion furnished to the Trustee conforming to the requirements of the Trust Agreement; but in the case of any such certificate or opinion which by any provision thereof is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Trust Agreement; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(1) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(2) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority, or such larger percentage as may be required under the Trust Agreement, in aggregate principal amount of the Series 2013G Water Bonds at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Trust Agreement.

None of the provisions contained in the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Qualifications of Trustee. There shall at all times be a trustee under the Trust Agreement which shall be a bank, trust company or national association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such corporations or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Trust Agreement, the Trustee shall resign immediately in the manner and with the effect specified therein.

Resignation and Removal of Trustee and Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice to the Authority and by giving to the Owners Notice by Mail. Upon receiving such notice of resignation, the Authority, with the advice and consent of the District, shall promptly appoint a successor trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee or any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months may, on behalf of itself and others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor trustee.

(b) In case at any time either of the following shall occur:

(1) the Trustee shall cease to be eligible in accordance with the provisions the Trust Agreement and shall fail to resign after written request therefor by the Authority or by any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months, or

(2) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Authority may remove the Trustee and appoint a successor trustee by an instrument in writing, or any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee and appoint a successor trustee.

(c) The Authority or Owners of a majority in aggregate principal amount of the Series 2013G Water Bonds at the time Outstanding may at any time remove the Trustee and appoint a successor trustee by an instrument or concurrent instruments in writing signed by the Authority or such Owners, as the case may be.

Modification of Trust Agreement

Amendment or Supplement of Trust Agreement. The Trust Agreement and the rights and obligations of the Authority, the District, the Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding when the written consents of the Owners of 60% in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, exclusive of Series 2013G Water Bonds disqualified as provided in the Trust Agreement, and the prior written consent of the Bond Insurer are filed with the Trustee. No such amendment or supplement shall (1) extend the stated payment date of any Series 2013G Water Bond, or reduce the rate of interest thereon, or extend the time of payment of such interest, or reduce the amount of principal thereof, or reduce any redemption premium thereon, without the prior written consent of the Owner of the Series 2013G Water Bond so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment or supplement to the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee or the Bond Insurer without their respective prior written consents thereto .

The Trust Agreement and the rights and obligations of the Authority, the District, the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving opinion of Bond Counsel and only for any one or more of the purposes set forth in the Trust Agreement.

Defeasance

Discharge of the Trust Agreement. When the obligations of the District under the Installment Purchase Contract shall cease pursuant to the Installment Purchase Contract (except for the right of the Trustee and the obligation of the District to have the money and Permitted Investments mentioned in the Trust Agreement applied to the payment of Installment Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate and become void except for the right of the Owners and the obligation of the Trustee to apply such moneys and Permitted Investments to the payment of the Series 2013G Water Bonds as set forth in the Trust Agreement and the right of the Trustee to collect any fees or expenses due thereunder, and the Trustee shall turn over to the District, as an overpayment of Installment Payments, any surplus in the Series 2013G Revenue Fund or the Project Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Series 2013G Water Bonds at maturity or on redemption, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Series 2013G Water Bonds, and after such payment, the Trust Agreement shall become void.

Defeasance Provisions Relating to the Bond Insurer with Respect to Insured 2013 G Water Bonds. Notwithstanding anything to the contrary in the provisions of the Trust Agreement relating to defeasance, only (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Bond Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (5) subject to the prior written consent of the Bond Insurer, securities eligible for “AAA” defeasance under then existing criteria of S&P, or any combination thereof, shall be used to effect defeasance of the Insured Series 2013G Water Bonds unless the Bond Insurer otherwise approves.

To accomplish defeasance of any Insured Series 2013G Water Bonds, the District shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer (“Accountant”) verifying the sufficiency of the escrow established to pay the Insured Series 2013G Water Bonds in full or in part on the maturity or redemption date

(“Verification”), (ii) an escrow agreement (which shall be acceptable in form and substance to the Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Insured Series 2013G Water Bonds are no longer “Outstanding” under the Trust Agreement and (iv) a certificate of discharge of the Trustee with respect to the Insured Series 2013G Water Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the District, the Trustee and Bond Insurer. The Bond Insurer shall be provided with final drafts of the above referenced documentation not less than 5 Business Days prior to the funding of the escrow.

Insured Series 2013G Water Bonds shall be deemed “Outstanding” under the Trust Agreement unless and until they are in fact paid and retired or the requirements of this section are met.

Provisions Relating to the Municipal Bond Insurance Policy

The following provisions shall govern notwithstanding anything to the contrary set forth in the Trust Agreement.

(a) The Bond Insurer shall be deemed to be the sole holder of the Insured Series 2013G Water Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Series 2013G Water Bonds are entitled to take pursuant to the Trust Agreement pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

(b) The maturity of Insured Series 2013G Water Bonds shall not be accelerated without the consent of the Bond Insurer and in the event the maturity of the Insured Series 2013G Water Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer’s obligations under the Municipal Bond Insurance Policy with respect to such Insured Series 2013G Water Bonds shall be fully discharged.

(c) No grace period for a covenant default shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the Bond Insurer.

(d) The Bond Insurer is hereby deemed to be a third party beneficiary to the Trust Agreement.

Any amendment, supplement, modification to, or waiver of, the Trust Agreement or the Installment Purchase Contract that requires the consent of owners of the Insured 2013 G Bonds or adversely affects the rights and interests of the Bond Insurer shall be subject to the prior written consent of the Bond Insurer.

(e) The rights granted to the Bond Insurer under the Trust Agreement and the Installment Purchase Contract to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Municipal Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer’s contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Insured Series 2013G Water Bonds and such action does not evidence any position of the Bond Insurer, affirmative or negative, as to whether the consent of the holders of the Insured Series 2013G Water Bonds or any other person is required in addition to the consent of the Bond Insurer.

(f) Amounts paid by the Bond Insurer under the Municipal Bond Insurance Policy shall not be deemed paid for purposes of the Trust Agreement and the Insured Series 2013G Water Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Trust Agreement. The Trust Agreement shall not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

(h) The Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Series 2013G Water Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy. Each obligation of the Authority to the Bond

Insurer under the Trust Agreement and the Installment Purchase Contract shall survive discharge or termination of such Trust Agreement and the Installment Purchase Contract.

(i) The Authority shall pay or reimburse the Bond Insurer any and all charges, fees, costs and expenses that the Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Trust Agreement and the Installment Purchase Contract; (ii) the pursuit of any remedies under the Trust Agreement and the Installment Purchase Contract or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Trust Agreement or the Installment Purchase Contract whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Trust Agreement or the Installment Purchase Contract or the transactions contemplated thereby, other than costs resulting from the failure of the Bond Insurer to honor its obligations under the Municipal Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Trust Agreement or the Installment Purchase Contract.

(j) After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Authority or rebate only after the payment of past due and current debt service on the Insured Series 2013G Water Bonds and amounts required to restore the Series 2013G Reserve Fund to the Series 2013G Reserve Fund Requirement.

(k) The Bond Insurer shall be entitled to pay principal or interest on the Insured Series 2013G Water Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Municipal Bond Insurance Policy) and any amounts due on the Insured Series 2013G Water Bonds as a result of acceleration of the maturity thereof in accordance with the Trust Agreement, whether or not the Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Municipal Bond Insurance Policy) or a claim upon the Municipal Bond Insurance Policy.

(m) The Bond Insurer shall have the right to receive such additional information as it may reasonably request.

(n) The Authority and the District will permit the Bond Insurer to discuss the affairs, finances and accounts of the Authority and the District or any information the Bond Insurer may reasonably request regarding the security for the Insured Series 2013G Water Bonds with appropriate officers of the Authority and the District and will use commercially reasonable efforts to enable the Bond Insurer to have access to the facilities, books and records of the Authority and the District on any business day upon reasonable prior notice.

(o) The Trustee shall notify the Bond Insurer of any failure of the Authority or the District to provide notices, certificates and other information under the transaction documents.

(p) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Trust Agreement would adversely affect the security for the Insured Series 2013G Water Bonds or the rights of the holders of the Insured Series 2013G Water Bonds, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Municipal Bond Insurance Policy.

(q) No contract shall be entered into or any action taken by which the rights of the Bond Insurer or security for or sources of payment of the Insured Series 2013G Water Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Bond Insurer.

(r) There shall be delivered an opinion of Bond Counsel addressed to the Bond Insurer (or a reliance letter relating thereto), or a certificate of discharge of the trustee for the Prior Water Bonds, to the effect that, upon the making of the required deposit to the escrow, the legal defeasance of the Prior Water Bonds shall have occurred.

(s) The Trustee shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of the Installment Purchase Contract and to provide notice to the Bond Insurer in accordance with the terms of the Reserve Policy at least 5 Business Days prior to each date upon which interest or principal is due on the Series 2013G Water Bonds.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Modesto Irrigation District Financing Authority
Modesto, California

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds, Series 2013G
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Irrigation District Financing Authority (the “Issuer”) in connection with the issuance of \$_____ aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”), issued pursuant to a trust agreement, dated as of August 1, 2013 (the “Trust Agreement”), by and among the Issuer, the Modesto Irrigation District (the “District”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Installment Purchase Contract, the Tax Certificate, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Issuer, the District and the Trustee, certificates of the Issuer, the District, the Trustee, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Installment Purchase Contract and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the Installment Purchase Contract and the Tax

Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Installment Purchase Contract or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer. The Bonds are payable from certain amounts payable by the District under the Installment Purchase Contract and certain other moneys described in the Trust Agreement (as more particularly defined in the Trust Agreement, the "Revenues").

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The Installment Purchase Contract has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer and the District, respectively.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

**SCHEDULE OF INSTALLMENT PAYMENTS AND
CITY PARITY OBLIGATIONS DEBT SERVICE**

Period Ending (June 30)	Series 2007 Installment Payments⁽¹⁾	Series 2013 Installment Payments	Total Installment Payments⁽³⁾	City Parity Obligations Debt Service⁽²⁾	Total Debt Service⁽³⁾
2014	\$ 4,123,147			\$ 2,794,333	
2015	4,123,147			2,808,727	
2016	4,123,147			2,661,780	
2017	4,123,147			2,535,923	
2018	4,123,147			2,518,646	
2019	4,123,147			2,530,427	
2020	4,123,147			2,513,176	
2021	4,123,147			2,492,859	
2022	4,123,147			2,503,270	
2023	4,123,147			2,507,350	
2024	8,304,567			4,282,757	
2025	8,293,467			4,278,858	
2026	8,289,159			4,266,364	
2027	8,315,438			4,224,573	
2028	8,316,756			4,209,127	
2029	8,321,460			4,181,510	
2030	8,309,258			4,179,122	
2031	8,325,956			4,146,026	
2032	8,320,888			4,127,732	
2033	8,343,388			4,046,313	
2034	8,347,679			4,020,879	
2035	8,353,539			3,993,866	
2036	8,365,191			3,955,486	
2037	8,362,191			3,939,540	
2038	12,133,514			--	
Total ⁽³⁾	<u>\$169,933,917</u>			<u>\$83,718,642</u>	

⁽¹⁾ Assumes an interest rate based upon the Domestic Water Swap Agreement fixed interest rate of (i) 4.378% on the Series 2007 Water Bonds with the stated maturity of September 1, 2027 and (ii) 4.440% on the Series 2007 Water Bonds with the stated maturity of September 1, 2037.

⁽²⁾ Assumes an interest rate on 2008 City Certificates based upon 2008 City Swap Agreement fixed interest rate of 3.4747%.

⁽³⁾ Totals may not add due to rounding.

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

General

The Depository Trust Company (“DTC”), New York, New York will act as securities depository for the Series 2013 Water Bonds. The Series 2013 Water Bonds will be issued as fully-registered securities certificates registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2013 Water Bond will be delivered for each maturity of the Series 2013 Water Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to DTC’s participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by reference.

Purchases of the Series 2013 Water Bonds under the DTC book-entry system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Water Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2013 Water Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Water Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013 Water Bonds, except in the event that use of the book-entry system for the Series 2013 Water Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 Water Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013 Water Bonds with

DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Water Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Water Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2013 Water Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Water Bonds, such as redemptions, defaults and proposed amendments to the Series 2013 Water Bond documents. For example, Beneficial Owners of Series 2013 Water Bonds may wish to ascertain that the nominee holding the Series 2013 Water Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the bond registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013 Water Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2013 Water Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013 Water Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments with respect to the Series 2013 Water Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owner will be governed by standing instructions and customer practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2013 Water Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2013 Water Bonds are required to be printed and delivered.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interest in the Series 2013 Water Bonds, payment of principal, premium, if any, interest and

other payments on the Series 2013 Water Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Series 2013 Water Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Series 2013 Water Bonds or (b) the Authority determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Series 2013 Water Bonds and use of the book-entry system will be discontinued. If the Authority fails to select a qualified securities depository to replace DTC, the Authority will execute and deliver new Series 2013 Water Bonds in fully registered form in such denominations and numbered in the manner determined by the Trustee and registered in the names of such persons as are requested in a written request of the Authority. The Trustee shall not be required to deliver such new Series 2013 Water Bonds within a period of less than 60 days from the date of receipt of such written request of the Authority. Upon such registration, such persons in whose names the Series 2013 Water Bonds are registered will become the registered owners of the Series 2013 Water Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Series 2013 Water Bonds may be exchanged for a like aggregate principal amount of such Series 2013 Water Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the corporate trust office of the Trustee; (b) the transfer of any Series 2013 Water Bond may be registered on the books maintained by the Trustee under the Trust Agreement for such purpose only upon the surrender thereof to the Trustee together with a duly executed written instrument of transfer in a form approved by the Trustee; (c) for every exchange or transfer of Series 2013 Water Bonds, the Trustee shall require the payment by any owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer; (d) no transfer or exchange of Series 2013 Water Bonds shall be required to be made during the 15-day period prior to any interest payment date or during the period established by the Trustee for selection of Series 2013 Water Bonds for redemption; (e) all interest payments on the Series 2013 Water Bonds will be made by clearinghouse check or draft mailed on the interest payment dates therefor as provided in the Trust Agreement to the person appearing on the registration books maintained by the Trustee or at such other address as has been furnished to the Trustee in writing by such owner; and (f) all payments of principal and any premium on the Series 2013 Water Bond, will be made upon surrender thereof at the corporate trust office of the Trustee.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by the CITY OF MODESTO (the “City”) and WELLS FARGO BANK, NATIONAL ASSOCIATION, in its capacity as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the Modesto Irrigation District Financing Authority (the “Authority”) of its \$ _____ Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”). The Bonds are being issued pursuant to a Trust Agreement (the “Trust Agreement”), dated as of August 1, 2013, by and among the Authority, the Modesto Irrigation District (the “District”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth above and in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the City Manager or Director of Finance of the City, or any designee thereof, or such other officer or employee as the City shall designate in writing to the Trustee and the Dissemination Agent from time to time.

“Dissemination Agent” shall mean Wells Fargo Bank, National Association, acting in the capacity of Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Holders” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement for the Bonds dated July __, 2013.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the end of the nine month following the end of the City’s Fiscal Year (presently March 31 of the subsequent year following the end of the City’s Fiscal Year), commencing with the report for the 2012-13 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit the audited financial statements as soon thereafter as available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City) and the Trustee. If by fifteen (15) business days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB (with a copy to the Authority, the District and the City) in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall:

- (i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and
- (ii) to the extent the City has provided the Dissemination Agent with the Annual Report, file a report with the City and (if the Dissemination Agent is not the Trustee, the Trustee) certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

SECTION 4. Content of Annual Reports. The Annual Report of the City shall contain or include by reference the following categories or similar categories of information updated to incorporate information for the most recent fiscal or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the Bonds):

- (i) the Annual Budget of the City;
- (ii) the Comprehensive Annual Financial Report of the City and, to the extent not contained in said Report or if said Report is no longer being prepared, the audited financial statements of the City's Water Utility System for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the audited financial statements of the City's Water Utility System are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;
- (iii) the principal amount of the Bonds and any other Parity Debt outstanding,
- (iv) to the extent not included in the City's audited financial statements, an update for the prior Fiscal Year of the financial information and operating data with respect to the City and the City's Water Utility System of the following type (or information and data comparable thereto) included in the Official Statement relating to the Bonds:
 - (a) the table entitled "CITY WATER UTILITY SYSTEM STATISTICS;"
 - (b) the table entitled "CITY WATER UTILITY SYSTEM – Service Area Total Production (Billion Gallons);"
 - (c) the table entitled "CITY WATER UTILITY SYSTEM – Sale of Water;"
 - (d) the table entitled "CITY WATER UTILITY SYSTEM – Ten Largest Customers;"

- (e) the table entitled “CITY WATER UTILITY SYSTEM – Monthly Single Family Residential Flat Water Rates;”
- (f) the table entitled “CITY WATER UTILITY SYSTEM – Water Rates and Charges Commercial Accounts;”
- (g) the table entitled “CITY WATER UTILITY SYSTEM – Connection Fees for All Users Except Multiple Family Units;”
- (h) the table entitled “CITY WATER UTILITY SYSTEM – Comparison of Average Monthly Water Rates Flat Rate (1” Service);”
- (i) the table entitled “CITY WATER UTILITY SYSTEM – Historical Debt Service Coverage;” and
- (j) the table entitled “CITY WATER UTILITY SYSTEM – Projected Operating Results).”

Any or all of the items listed in (iv) above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB or the SEC. If any document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this section, upon the occurrence of any of the following events (in each case to the extent applicable) with respect to the Bonds, the City shall give, or cause to be given by so notifying the Dissemination Agent in writing and instructing the Dissemination Agent to give, notice of the occurrence of such event, in each case, pursuant to Section 5(c) hereof:

1. principal or interest payment delinquencies;
2. non-payment related defaults, if material;
3. modifications to the rights of the Bondholders, if material;
4. optional, contingent or unscheduled calls, if material, and tender offers;
5. defeasances;
6. rating changes;
7. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with

respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds, if material;
12. bankruptcy, insolvency, receivership or similar proceedings of the City, which shall occur as described below;
13. appointment of a successor or additional trustee or the change of name of a trustee, if material, or;
14. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City's Water Utility System other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

For these purposes, any event described in item 12 of this Section 5(a) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(b) Upon receipt of notice from the City and instruction by the City to report the occurrence of any Listed Event, the Dissemination Agent shall provide notice thereof to the MSRB in accordance with Section 5(c) hereof. In the event the Dissemination Agent shall obtain actual knowledge of the occurrence of any of the Listed Events, the Dissemination Agent shall, immediately after obtaining such knowledge, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(c). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Event shall mean actual knowledge by the Dissemination Agent, if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular

responsibility for the administration of matters related to the Trust Agreement. The Dissemination Agent shall have no responsibility to determine the materiality, if applicable, of any of the Listed Events.

(c) The City, or the Dissemination Agent, if the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, shall file a notice of such occurrence with the MSRB in a timely manner not more than ten (10) business days after the occurrence of the event.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement with respect to the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be Wells Fargo Bank, National Association. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Disclosure Agreement in accordance with its written fee schedule provided to the City, as such fee schedule may be amended from time to time in writing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City that does not adversely affect the Dissemination Agent's rights and obligations) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (i) If the amendment or waiver relates to the provisions of Section 3(a), Section 4 or Section 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;
- (ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

- (iii) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (to the extent indemnified to its satisfaction)) or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 15. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City and the Dissemination Agent to the undertaking herein provided.

Dated: _____, 2013

CITY OF MODESTO

By: _____
Director of Finance

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: CITY OF MODESTO

Name of Issue: DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS,
SERIES 2013G

Date of Delivery: _____, 2013

NOTICE IS HEREBY GIVEN that the City of Modesto (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Agreement, dated _____, 2013, between the City and Wells Fargo Bank, National Association, as Dissemination Agent. The City has informed the undersigned that it anticipates that the Annual Report will be filed by _____.

Dated: _____

WELLS FARGO BANK,
NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Authorized Officer

cc: City of Modesto

APPENDIX H

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY
FOR THE INSURED SERIES 2013 WATER BONDS**

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer




CERTIFICATE OF THE
MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
AS TO FINALITY OF
PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby certifies that he is the Treasurer of the Modesto Irrigation District Financing Authority (the "Authority"), and as such is duly authorized to execute this certificate on behalf of the Authority.

The undersigned hereby further certifies that the Authority deems the preliminary official statement relating to the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, dated July 25, 2013 (including the cover page and all appendices thereto, the "Preliminary Official Statement") to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12.

The Authority hereby approves of the use and distribution by the underwriter of said bonds of the Preliminary Official Statement and the posting and distribution of the Preliminary Official Statement through electronic means.

IN WITNESS WHEREOF, I hereunto set my hand as of the 25th day of July, 2013.

By: 
Don Dermond
Interim Treasurer

**CERTIFICATE OF THE MODESTO IRRIGATION DISTRICT
AS TO FINALITY OF
PRELIMINARY OFFICIAL STATEMENT**

The undersigned hereby certifies that he is the Acting Assistant General Manager, Finance of the Modesto Irrigation District (the "District"), and as such is duly authorized to execute this certificate on behalf of the District.

The undersigned hereby further certifies that the District deems the preliminary official statement relating to the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, dated July 25, 2013 (including the cover page and all appendices thereto, the "Preliminary Official Statement") to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12.

The District hereby approves of the use and distribution by the underwriter of said bonds of the Preliminary Official Statement and the posting and distribution of the Preliminary Official Statement through electronic means.

IN WITNESS WHEREOF, I hereunto set my hand as of the 25th day of July, 2013.

By: 

Ed Oborn
Acting Assistant General Manager, Finance

CERTIFICATE OF THE CITY OF MODESTO
AS TO FINALITY OF
PRELIMINARY OFFICIAL STATEMENT

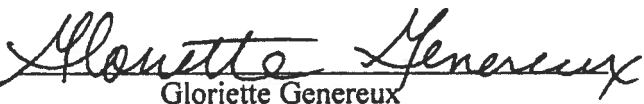
The undersigned hereby certifies that she is the Director of Finance of the City of Modesto (the "City"), and as such is duly authorized to execute this certificate on behalf of the City.

The undersigned hereby further certifies that the City deems the information relating to the City and the City's Water Utility System contained in the preliminary official statement relating to the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, dated July 25, 2013 (including the cover page and all appendices thereto, the "Preliminary Official Statement") to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12.

The City hereby approves of the use and distribution by the underwriter of said bonds of the Preliminary Official Statement and the posting and distribution of the Preliminary Official Statement through electronic means.

Capitalized terms used herein not otherwise defined shall have the meanings ascribed thereto in the Preliminary Official Statement.

IN WITNESS WHEREOF, I hereunto set my hand as of the 25th day of July, 2013.

By: 
Gloriette Genereux
Director of Finance

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2013 Water Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2013 Water Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2013 Water Bonds. See “TAX MATTERS” herein.

\$43,270,000

**MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS,
SERIES 2013G**

Dated: Date of Issuance

Due: September 1, as set forth on the inside front cover

The Modesto Irrigation District Financing Authority (the “Authority”) Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the “Series 2013 Water Bonds”) are being issued to provide funds to (i) refinance a portion of the costs of the Domestic Water Project (described below) of the Modesto Irrigation District (the “District”) by refunding all of the Authority’s outstanding Domestic Water Project Refunding Revenue Bonds, Series 1998D, (ii) purchase an insurance policy for the funding of a reserve fund for the Series 2013 Water Bonds and (iii) pay costs of issuance of the Series 2013 Water Bonds, as more fully described herein. See “PLAN OF REFUNDING” and “THE DOMESTIC WATER PROJECT” herein.

The Series 2013 Water Bonds will be dated their date of issuance. Interest on the Series 2013 Water Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2014. The Series 2013 Water Bonds are being delivered in fully registered form and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Series 2013 Water Bonds. Individual purchases will be made in book-entry form only, in denominations of \$5,000 principal amount or any integral multiple thereof. Payments of principal of, premium, if any, and interest on, the Series 2013 Water Bonds are payable by Wells Fargo Bank, National Association, as trustee (the “Trustee”) to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Series 2013 Water Bonds, as described herein.

The Series 2013 Water Bonds are not subject to optional redemption prior to maturity. The Series 2013 Water Bonds are subject to extraordinary redemption prior to maturity under certain circumstances as described herein.

The Series 2013 Water Bonds are being issued pursuant to a Trust Agreement, dated as of August 1, 2013 (the “Trust Agreement”), among the Authority, the District and the Trustee. The Series 2013 Water Bonds are special, limited obligations of the Authority payable from Revenues (as herein defined) of the Authority, consisting principally of installment payments (the “Series 2013 Installment Payments”) received by the Trustee, as assignee of the Authority, from the District pursuant to an Installment Purchase Contract, originally dated as of November 1, 1992, and as amended and restated through August 1, 2013 (the “Installment Purchase Contract”), by and between the Authority and the District. The District entered into a Treatment and Delivery Agreement in 1992, as superseded by an Amended and Restated Treatment and Delivery Agreement entered into in 2005, and as further amended (the “Treatment and Delivery Agreement”) with the City of Modesto, a California charter city and municipal corporation (the “City”), pursuant to which the District agreed to construct and operate a surface water treatment plant and distribution facilities, including an ongoing expansion thereof (collectively, the “Domestic Water Project”), and to supply treated water from the Domestic Water Project to the City, in consideration for which the City has agreed to pay, subject to the terms of the Treatment and Delivery Agreement, the costs of the operation of the Domestic Water Project as well as debt service relating to the Domestic Water Project (including the Series 2013 Installment Payments). The Series 2013 Installment Payments to be paid by the District are payable from and are secured by a pledge of and first lien upon certain payments by the City under the Treatment and Delivery Agreement (the “Treatment and Delivery Revenues,” as further described herein). The City’s obligations under the Treatment and Delivery Agreement are payable from and are secured by a lien upon City Gross Water Revenues (as defined herein) from the operation of the City’s Water Utility System, as further described herein.

The scheduled payment of principal of and interest on the Series 2013 Water Bonds maturing on September 1 of the years 2019 through 2022, inclusive (the “Insured Series 2013 Water Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Series 2013 Water Bonds by ASSURED GUARANTY MUNICIPAL CORP. See “BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS” herein.



THE SERIES 2013 WATER BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR OF ITS MEMBERS (INCLUDING THE DISTRICT) NOR OF ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE REVENUES, IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS. THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY NOR OF ANY MEMBER OF THE AUTHORITY (INCLUDING THE DISTRICT) NOR OF ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

MATURITY SCHEDULE
(see inside front cover)

The Series 2013 Water Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority. Certain legal matters will be passed upon for the District and the Authority by the District’s General Counsel. Certain legal matters will be passed upon for the City by the City Attorney and by Sidley Austin LLP, San Francisco, California. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright. First Southwest Company is serving as financial advisor to the District in connection with the issuance of the Series 2013 Water Bonds. It is expected that the Series 2013 Water Bonds will be available for delivery through the DTC book-entry system in New York, New York on or about August 14, 2013.

Citigroup

Maturity Schedule

\$43,270,000 Series 2013 Water Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP Number [†]
2014	\$3,970,000	2.00%	0.380%	607769EW2
2015	4,110,000	5.00	0.600	607769EX0
2016	4,320,000	5.00	0.990	607769EY8
2017	4,535,000	5.00	1.380	607769EZ5
2018	4,760,000	5.00	1.690	607769FA9
2019 ⁽¹⁾	5,005,000	5.00	2.080	607769FB7
2020 ⁽¹⁾	5,260,000	5.00	2.490	607769FC5
2021 ⁽¹⁾	5,515,000	5.00	2.860	607769FD3
2022 ⁽¹⁾	5,795,000	5.00	3.160	607769FE1

⁽¹⁾ Insured maturity.

MODESTO IRRIGATION DISTRICT

1231 Eleventh Street
P.O. Box 4060
Modesto, California 95352
(209) 526 7373

DISTRICT BOARD OF DIRECTORS AND AUTHORITY GOVERNING BOARD

Nick Blom, President and Chairperson

Larry Byrd, Vice President and
Vice Chairperson
Dr. Tom Van Groningen

Paul Warda
Glen Wild

DISTRICT STAFF

Roger Van Hoy
Interim General Manager

Ed Oborn
Acting Assistant General Manager, Finance
and Controller

Joy Warren, Esq.
General Counsel

PROFESSIONAL SERVICES

Orrick, Herrington & Sutcliffe LLP
San Francisco, California
Bond Counsel

Wells Fargo Bank, National Association
San Francisco, California
Trustee

First Southwest Company
Santa Monica, California
District Financial Advisor

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No dealer, broker, salesperson or other person has been authorized by the Authority, the District, the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the District, the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2013 Water Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2013 Water Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the Authority, the District, the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the District or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be filed with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) website.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Series 2013 Water Bonds or the advisability of investing in the Series 2013 Water Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE FOR THE INSURED SERIES 23013 WATER BONDS” and APPENDIX H –”SPECIMEN MUNICIPAL BOND INSURANCE POLICY FOR THE INSURED SERIES 2013 WATER BONDS.”

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2013 WATER BONDS THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 WATER BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement and the Appendices hereto constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions “THE DOMESTIC WATER PROJECT” and “THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM” in this Official Statement. Forward-looking statements in this Official Statement are subject to risks and uncertainties, including, but not limited to statements that describe the future expected operational performance of the Domestic Water Project, statements regarding the City’s business strategy and objectives for future operations of the City Water Utility System, possible future connections to and revenues and expenses of the City Water Utility System and the economy of the service area of the City Water Utility System.

The achievement of any results or the realization of other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. None of the Authority, the District or the City plans to issue any updates or revisions to those forward-looking statements.

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OFFICIAL STATEMENT

\$43,270,000

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY Domestic Water Project Refunding Revenue Bonds, Series 2013G

INTRODUCTION

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the Series 2013 Water Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

Purpose and Background

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the issuance and sale of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the “Series 2013 Water Bonds”). The Series 2013 Water Bonds are being issued pursuant to a Trust Agreement, dated as of August 1, 2013 (the “Trust Agreement”), among the Modesto Irrigation District Financing Authority (the “Authority”), the Modesto Irrigation District (the “District” or “MID”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Series 2013 Water Bonds are being issued pursuant to the Marks Roos Local Bond Pooling Act of 1985, consisting of Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “State”).

In 1992, the District entered into a Treatment and Delivery Agreement with the City of Modesto, a California charter city and municipal corporation (the “City”), as superseded by an Amended and Restated Treatment and Delivery Agreement entered into in 2005, and in connection with the issuance of the Authority’s Domestic Water Project Revenue Bonds, Series 2007F (Index Rate) (the “Series 2007 Water Bonds”), the District and the City entered into certain financing amendments to such Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as so superseded and amended, the “Treatment and Delivery Agreement”). Pursuant to the Treatment and Delivery Agreement, the District agreed to construct and operate a surface water treatment plant and distribution facilities, including the ongoing expansion thereof (collectively, the “Domestic Water Project”) and to supply treated water from the Domestic Water Project to the City, which currently provides municipal water service within the District’s irrigation service boundaries, in consideration for which the City agreed to pay the costs of acquisition, construction and operation of the Domestic Water Project, as well as debt service relating to the Domestic Water Project, including installment payments to be made by the District to the Authority pursuant to an Installment Purchase Contract, dated as of November 1, 1992, as amended and restated as of July 1, 1995 and further amended and restated as of February 1, 1998, and to be further amended and restated as of August 1, 2013 in connection with the delivery of the Series 2013 Water Bonds (the “Installment Purchase Contract”), by and between the Authority and the District, and an Installment Purchase Contract, dated as of June 1, 2007 (the “2007 Installment Purchase Contract”), by and between the Authority and the District. See “THE DOMESTIC WATER PROJECT.” See also “–Project Financing History” below.

The proceeds of the sale of the Series 2013 Water Bonds will be used to provide funds to (i) refinance a portion of the costs of the original Domestic Water Project of the District by refunding and retiring all of the Authority’s outstanding Domestic Water Project Refunding Revenue Bonds, Series

1998D (the “Series 1998D Water Bonds”), (ii) purchase an insurance policy for the funding of a reserve fund for the Series 2013 Water Bonds and (iii) pay costs of issuance of the Series 2013 Water Bonds, as more fully described herein. See “PLAN OF REFUNDING.”

The District

The District is a California irrigation district organized and existing under the provisions of the California Irrigation District Law, Division 11 of the California Water Code (the “Irrigation District Act”). The District has the powers under the Irrigation District Act to, among other things, provide irrigation within its irrigation service area.

The Authority

The Authority was created by a Joint Exercise of Powers Agreement, dated as of July 1, 1989 (the “Joint Exercise of Powers Agreement”), between the District and the City of Redding (“Redding”) pursuant to the provisions of the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the “Joint Exercise of Powers Act”). The Authority was created for the purpose of facilitating the financing of public capital improvements and facilities for the District. Under the Joint Exercise of Powers Agreement and the Joint Exercise of Powers Act, Redding has no liability whatsoever for the Series 2013 Water Bonds, the Series 2013 Installment Payments (as defined herein), any public capital improvements or facilities financed or refinanced with the proceeds of the Series 2013 Water Bonds or any other financial obligation in connection therewith. See “THE AUTHORITY.”

Project Financing History

In April 1992, the District entered into the Treatment and Delivery Agreement with the City and the Del Este Water Company (“Del Este”), a private water company then operating within the City limits and certain surrounding areas. In July 1995, the City purchased substantially all of the assets and liabilities of Del Este and assumed all interests, rights and obligations of Del Este under the Treatment and Delivery Agreement. See “THE DOMESTIC WATER PROJECT.” In order to finance a portion of the City’s share of the estimated costs of acquisition and construction of the Domestic Water Project, the Authority issued Domestic Water Project Revenue Bonds, Series 1992A in the aggregate initial principal amount of \$71,885,000 (the “Series 1992A Water Bonds”), Domestic Water Project Revenue Bonds, Series 1992B in the aggregate initial principal amount of \$5,500,000 (the “Series 1992B Water Bonds”) and Domestic Water Project Revenue Bonds, Series 1995C in the aggregate initial principal amount of \$24,235,000 (the “Series 1995C Water Bonds”). In 1998, the Authority issued its \$94,715,000 Series 1998D Water Bonds to refund all of the outstanding Series 1992A Water Bonds and Series 1995C Water Bonds. The Series 1992B Water Bonds were retired as of September 1, 2002.

In 2007, the Authority issued \$93,190,000 of its Series 2007 Water Bonds for the purpose of financing a portion of the costs of the acquisition, design, construction, improvement and installation of an expansion of the original Domestic Water Project (the “Phase Two Expansion”) and entered into the 2007 Installment Purchase Contract with the District in connection therewith. The Series 2007 Water Bonds are payable from installment payments (the “Series 2007 Installment Payments”) received by the Authority from the District pursuant to the 2007 Installment Purchase Contract as payment of the purchase price of the Phase Two Expansion. The Phase Two Expansion has experienced construction issues which have delayed its completion, and multimillion dollar cost overruns have been experienced. See “THE DOMESTIC WATER PROJECT – Domestic Water Project Description.”

The Series 2013 Water Bonds are being issued for the purpose of refinancing a portion of the costs of the original Domestic Water Project by refunding all of the outstanding Series 1998D Water

Bonds. On the date of delivery of the Series 2013 Water Bonds, all of the Series 1998D Water Bonds will be redeemed and retired and will no longer be outstanding under the trust agreement pursuant to which such Series 1998D Bonds were issued. The installment payments to be made by the District under the Installment Purchase Contract (hereinafter, the “Series 2013 Installment Payments”) are in payment of the purchase price of the original Domestic Water Project. See “PLAN OF REFUNDING.”

Security and Sources of Payment for the Series 2013 Water Bonds

The Series 2013 Water Bonds are special, limited obligations of the Authority payable solely from Revenues (as defined herein) of the Authority, consisting principally of Series 2013 Installment Payments received by the Authority from the District pursuant to the Installment Purchase Contract. The Series 2013 Installment Payments are payable solely from and secured by a pledge of all Treatment and Delivery Revenues (as defined herein) received by the District from the City under the Treatment and Delivery Agreement, unless the District in its discretion elects to appropriate monies to pay the Series 2013 Installment Payments as provided herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS.”

The Series 2013 Installment Payments will be payable by the District on a parity with the outstanding Series 2007 Installment Payments. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement.”

THE SERIES 2013 WATER BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR OF ITS MEMBERS (INCLUDING THE DISTRICT) NOR ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE REVENUES, IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS. NEITHER THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY NOR OF ANY MEMBER OF THE AUTHORITY (INCLUDING THE DISTRICT) NOR ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

City’s Obligations under Treatment and Delivery Agreement

The obligation of the City to make Payments (as hereinafter defined) under the Treatment and Delivery Agreement is a special, limited obligation of the City payable solely from the City’s Gross Water Revenues (as defined herein). Pursuant to the Treatment and Delivery Agreement, the City has covenanted to fix, prescribe and collect water rates and charges which shall be at least sufficient to yield City Gross Water Revenues during each fiscal year of the City in an amount equal to: (i) the payment obligations of the City under the Treatment and Delivery Agreement other than Debt Service (as defined therein), plus (ii) maintenance and operation costs of the City Water Utility System to the extent not included in (i) above, plus (iii) 125% of the Debt Service to be paid during the fiscal year (the “City Rate Covenant”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – Outstanding Domestic Water Project Obligations” and “–The Treatment and Delivery Agreement – *City Rate Covenant*.”

The City has, and may in the future, issue or incur other obligations secured by a pledge of the City Gross Water Revenues on a parity with its obligations under the Treatment and Delivery Agreement; the City has covenanted under the Treatment and Delivery Agreement that it will require a covenant substantially similar to the City Rate Covenant in the Treatment and Delivery Agreement with respect to all obligations issued by the City on a parity with its obligations under the Treatment and Delivery Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Additional Encumbrances of City Gross Water Revenues.*”

Series 2013 Reserve Fund

A Series 2013 Reserve Fund for the Series 2013 Water Bonds will be established with Wells Fargo Bank, National Association, as depository (the “Depository”) in an amount equal to the maximum annual Series 2013 Installment Payments. Moneys in the Series 2013 Reserve Fund will be used solely for the purpose of paying the Series 2013 Installment Payments in the event that amounts paid by the District to the Trustee, as assignee of the Authority, are insufficient therefor. Upon the delivery of the Series 2013 Water Bonds, there will be credited to the Series 2013 Reserve Fund a municipal bond debt service reserve insurance policy issued by Assured Guaranty Municipal Corp. with a policy limit in the amount of the Series 2013 Reserve Fund Requirement (initially, \$5,974,700 upon delivery of the Series 2013 Water Bonds). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – Series 2013 Reserve Fund.”

Bond Insurance for the Insured Series 2013 Water Bonds

The scheduled payment of principal of and interest on the Series 2013 Water Bonds maturing on September 1 of the years 2019 through 2022, inclusive (the “Insured Series 2013 Water Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Series 2013 Water Bonds by Assured Guaranty Municipal Corp. See “BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS.”

Continuing Disclosure

Pursuant to a Continuing Disclosure Agreement, between the City and the Trustee, the City has agreed to provide to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (“EMMA”) a copy of the annual audited financial statements and certain other operating data relating to the City’s Water Utility System (the “Annual Report”) by not later than the end of the ninth month following the end of each fiscal year (which fiscal year presently ends June 30), commencing with the report for the 2012-13 fiscal year. In addition, the City has agreed to give timely notice to EMMA of the occurrence of certain enumerated events relating to its obligations for the Series 2013 Water Bonds. The specific nature of the information to be contained in the Annual Report and the specified events of which notice is to be given are summarized in APPENDIX G – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made by the City in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

The City has entered into a number of prior continuing disclosure undertakings under the Rule in connection with the issuance of long-term obligations and has provided annual filings of certain financial information and operating data and notice of the occurrence of specified events in connection with those undertakings. The City has not failed in the previous five years to comply with any previous continuing disclosure undertaking entered into by the City under the Rule, except (i) although the City’s comprehensive annual financial report for fiscal year 2009-10 was timely filed, it was not associated with

the applicable CUSIP Numbers for the Domestic Water Bonds (as defined in Appendix C hereto) until a few days after the required filing date and (ii) the City's budget for each of fiscal years 2009-10, 2010-11 and 2011-12 were not timely filed and associated with the applicable CUSIP Numbers for the Domestic Water Bonds until July 12, 2013. As of the date hereof, the City is in compliance in all material respects with its previous continuing disclosure undertakings. The City believes it has established processes to ensure that in the future it will make its continuing disclosure filings as required.

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the District or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

This Official Statement includes summaries of the terms of the Series 2013 Water Bonds, the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement and certain other agreements and documents. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

Copies of the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement and the Continuing Disclosure Agreement will be available for inspection at the offices of the District in Modesto, California, and will be available upon request and payment of duplication costs from the Trustee.

Additional Information

Additional information regarding the Official Statement, including information pertaining to the District or the City, may be obtained by contacting the Trustee or by contacting either the District or the City at the addresses below:

Acting Assistant General Manager, Finance
Modesto Irrigation District
1231 Eleventh Street
Modesto, California 95352
(209) 526-7373

Director of Finance
City of Modesto
1010 10th Street
Modesto, California 95353
(209) 577-5371

PLAN OF REFUNDING

Refunding of the Series 1998D Water Bonds. The Authority and the District will apply a portion of the net proceeds of the sale of the Series 2013 Water Bonds, together with other lawfully available funds, to refund and redeem all of the \$52,620,000 outstanding principal amount of the Series 1998D Water Bonds.

The refunding of the outstanding Series 1998D Water Bonds will be effected by applying a portion of the proceeds of the Series 2013 Water Bonds, together with certain other available moneys, on the date of delivery of the Series 2013 Water Bonds (the “Redemption Date”) to redeem all of the outstanding Series 1998D Water Bonds at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the Redemption Date.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2013 Water Bonds are as follows:

<u>Estimated Sources</u>	
Principal Amount of Series 2013 Water Bonds	\$43,270,000
Original Issue Premium	5,707,262
Transfer from Refunded Series 1998D Bonds funds and accounts	5,468,572
Total	\$54,445,834
<u>Estimated Uses</u>	
Redemption of the Series 1998D Water Bonds	\$53,791,401
Costs of Issuance ⁽¹⁾	654,433
Total	\$54,445,834

⁽¹⁾ Includes Underwriter’s discount, the bond insurance and debt service reserve fund policy premiums, fees of Bond Counsel, fees of financial advisors, fees of the Trustee, rating agencies’ fees, printing costs and certain miscellaneous expenses. See “UNDERWRITING.”

THE SERIES 2013 WATER BONDS

The following is a summary of certain provisions of the Series 2013 Water Bonds. Reference is made to the Series 2013 Water Bonds for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

General

The Series 2013 Water Bonds will be issued in the aggregate principal amounts set forth on the inside cover page of this Official Statement. The Series 2013 Water Bonds are being delivered in fully registered form, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2013 Water Bonds. Principal, premium, if any, and interest on the Series 2013 Water Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the Series 2013 Water Bonds. See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

The Series 2013 Water Bonds will be dated the date of issuance thereof. Ownership interests in the Series 2013 Water Bonds will be in \$5,000 denominations or any integral multiple thereof. Interest on the Series 2013 Water Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2014, calculated on the basis of a 360-day year and twelve 30-day calendar months. The Series 2013 Water Bonds will mature on the dates and in the principal amounts, and the interest thereon shall be computed at the rates, all as set forth on the inside cover page of this Official Statement.

Redemption

No Optional Redemption. The Series 2013 Water Bonds are not subject to optional redemption prior to maturity.

Extraordinary Redemption. The Series 2013 Water Bonds are subject to redemption prior to maturity as a whole on any date or in part by lot (in integral multiples of \$5,000 principal amount) on any interest payment date, from prepaid Series 2013 Installment Payments made by the District from funds received by the District due to a casualty loss or governmental taking of the District's Domestic Water Project or portions thereof by eminent domain proceedings, under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and the Installment Purchase Contract, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Summary of Installment Purchase Contract – Covenants of the District – Insurance."

Selection of Series 2013 Water Bonds for Redemption. If less than all of the Series 2013 Water Bonds are to be redeemed, the District may select the maturities of the Series 2013 Water Bonds to be redeemed by filing a Written Request of the District with the Trustee. If less than all of the Series 2013 Water Bonds of any one maturity are to be redeemed on any one date, the Trustee shall select the Water Bonds of such maturity by lot in a manner which the Trustee deems to be fair; provided, however, that with respect to Insured Series 2013 Water Bonds which are redeemed in part pursuant to an extraordinary redemption as described in the preceding paragraph, the selection of such Insured Series 2013 Water Bonds to be redeemed shall be subject to the approval of Assured Guaranty Municipal Corp., as the bond insurer of the Insured Series 2013 Water Bonds.

Notice of Redemption. Notice of redemption shall be given by the Trustee by mail to the registered owner of each Series 2013 Water Bond to be redeemed not less than 30 nor more than 60 days prior to the redemption date at the address shown on the registration books of the Trustee on the date such notice is mailed. So long as DTC is acting as securities depository for the Series 2013 Water Bonds, notice of redemption will be mailed to DTC and not to beneficial owners of the Series 2013 Water Bonds. Each notice of redemption shall state the date of such notice, the date of issuance of the Series 2013 Water Bonds, the redemption date, the redemption prices, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number of the Series 2013 Water Bonds, the source of the funds to be used for such redemption, the principal amount of the Series 2013 Water Bonds to be redeemed, the distinctive bond numbers of the Series 2013 Water Bonds or portions thereof to be redeemed, the rate of interest payable on the Series 2013 Water Bonds to be redeemed and the maturity date of the Series 2013 Water Bonds to be redeemed, and shall also state that the interest payable on the Series 2013 Water Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Series 2013 Water Bonds the principal amount of the Series 2013 Water Bonds to be redeemed, interest accrued thereon to the redemption date and the premium, if any, thereon (such premium to be specified) and shall require that such Series 2013 Water Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee, the Series 2013 Water Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Series 2013 Water Bonds so called for redemption shall cease to accrue, such Series 2013 Water Bonds shall cease to be entitled to any lien, benefit or security under the Trust Agreement, and the Owners of such Series 2013 Water Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS

Pledge Under the Trust Agreement

The Series 2013 Water Bonds are special, limited obligations of the Authority payable solely from and secured solely by a first pledge of and charge and lien upon (i) all Series 2013 Installment Payments and other payments made by the District and received by the Authority pursuant to the Installment Purchase Contract and (ii) all interest or other income derived from the investment of any money in any fund or account (other than the Rebate Fund) held under the Trust Agreement (collectively, the “Revenues”), and any other amounts (including proceeds of the sale of the Series 2013 Water Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund), all under the terms and conditions set forth in the Trust Agreement. As and to the extent set forth in the Trust Agreement all the Revenues and such other amounts are irrevocably pledged to the payment of the interest on and principal of the Series 2013 Water Bonds as provided in the Trust Agreement and the Revenues shall not be used for any other purpose while any of the Series 2013 Water Bonds remain outstanding; provided, however, that out of such Revenues and other moneys certain sums may be applied for other purposes as permitted under the Trust Agreement. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

THE SERIES 2013 WATER BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR OF ITS MEMBERS (INCLUDING THE DISTRICT) NOR OF ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE REVENUES IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS. THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2013 WATER BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY NOR OF ANY MEMBER OF THE AUTHORITY (INCLUDING THE DISTRICT) NOR OF ANY OTHER PUBLIC ENTITY (INCLUDING THE CITY) FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Installment Payments

The District has agreed in the Installment Purchase Contract to make the Series 2013 Installment Payments as payment of a portion of the purchase price of the original Domestic Water Project, but solely from Treatment and Delivery Revenues (as defined herein) received by the District from the City pursuant to the Treatment and Delivery Agreement, unless the District elects to appropriate monies to pay such obligations. See “The Treatment and Delivery Agreement – *Special Budgeting Covenant of the*

District.” The District is required to make Series 2013 Installment Payments whether or not the Domestic Water Project or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Outstanding Domestic Water Project Obligations

Upon the issuance of the Series 2013 Water Bonds and the retirement of the Series 1998D Water Bonds being refunded, in addition to the Series 2013 Water Bonds, the Series 2007 Water Bonds will be outstanding in the principal amount of \$93.190 million. The Series 2007 Water Bonds are payable from the Series 2007 Installment Payments to be made by the District to the Authority pursuant to the 2007 Installment Purchase Contract, solely from Treatment and Delivery Revenues received by the District from the City pursuant to the Treatment and Delivery Agreement. The Series 2013 Installment Payments to be made by the District pursuant to the Installment Purchase Contract will be payable by the District on a parity with the Series 2007 Installment Payments to be made by the District pursuant to the 2007 Installment Purchase Contract. The District has covenanted in the Installment Purchase Contract and the 2007 Installment Purchase Contract that in any year that Treatment and Delivery Revenues are insufficient to make the Series 2013 Installment Payments and the Series 2007 Installment Payments in full when due to pay the Series 2013 Water Bonds and Series 2007 Water Bonds, respectively, an Authorized District Representative will submit a special budget item to the District Board seeking a special appropriation in the amount of such insufficiency. The District Board shall have absolute discretion in determining whether or not to make such special appropriation. See “The Treatment and Delivery Agreement – *Special Budgeting Covenant of the District.*” See also “APPENDIX E – SCHEDULE OF INSTALLMENT PAYMENTS” for a schedule of the Series 2013 Installment Payments and the outstanding Series 2007 Installment Payments.

The Series 2007 Water Bonds are floating rate bonds and bear interest at a LIBOR-Based Interest Rate equal to a specified percentage of the Three Month LIBOR Rate plus an applicable spread for each maturity. In connection with the issuance of the Series 2007 Water Bonds, the Authority entered into an interest rate swap agreement in the form of an ISDA Master Agreement (Local Currency – Single Jurisdiction), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex and two Confirmations each dated as of and entered into on June 5, 2007 (collectively, the “Domestic Water Swap Agreement”) with Bear Stearns Capital Markets Inc., the obligations of which have been assumed by to JPMorgan Chase Bank, N.A. (the “Swap Provider”). The Domestic Water Swap Agreement is scheduled to expire on the maturity date of the Series 2007 Water Bonds; and the notional amount of the Domestic Water Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal on the Series 2007 Water Bonds is scheduled to be reduced. Pursuant to the Domestic Water Swap Agreement, the Authority is required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest equal to 4.378% on an initial notional amount equal to the principal amount of the Series 2007 Water Bonds maturing on September 1, 2027 and a fixed rate of interest equal to 4.440% on an initial notional amount equal to the principal amount of the Series 2007 Water Bonds maturing on September 1, 2037. In return, the Swap Provider is required to make periodic payments to the Authority for deposit in the Interest Account pursuant to the Trust Agreement calculated on the basis of a variable rate of interest equal to the applicable interest rate on each maturity of the Series 2007 Water Bonds on the same notional amount of each such maturity of the Series 2007 Water Bonds. The amounts payable by each party pursuant to the Domestic Water Swap Agreement are netted against the payments to be received by such party thereunder such that the net interest obligation with respect to each maturity of the hedged Series 2007 Water Bonds is equal to the fixed interest rate payable by the Authority under the Domestic Water Swap Agreement with respect to that maturity.

Both the Authority and the Swap Provider have the right to terminate the Domestic Water Swap Agreement prior to its stated termination date under certain conditions. Any such termination could result in an obligation on the part of the Authority or the Swap Provider to make termination payments to the other party, and the amount of such termination payments could be substantial. As of June 28, 2013, the Authority would have been required to pay a termination payment to the Swap Provider if the Domestic Water Swap Agreement were terminated as of such date in the estimated amount of approximately \$24.6 million.

Pursuant to the Treatment and Delivery Agreement, “Debt Service” (as further defined below) for which the City is obligated to make payments to the District under the Treatment and Delivery Agreement, includes all scheduled payments, termination payments or other types of payments required to be made under the terms of any swap contract entered into in connection with variable rate financing for the Domestic Water Project, including the Domestic Water Swap Agreement. The Authority’s obligations under the Domestic Water Swap Agreement to make scheduled payments and termination payments constitute Debt Service under the Treatment and Delivery Agreement. See “– The Treatment and Delivery Agreement” below.

The Treatment and Delivery Agreement

Treatment and Delivery Revenues. Pursuant to the Treatment and Delivery Agreement, the City has agreed to pay the payments (“Payments”) due thereunder during each twelve month period beginning on May 1 and ending on the next succeeding April 30 (a “Domestic Water Year”) in equal monthly installments. Payments to be made by the City under the Treatment and Delivery Agreement will include, among other things, so long as any Domestic Water Bonds (as defined in Appendix C hereto) are outstanding, principal, interest and other charges, if any, due with respect to the Domestic Water Bonds and all payments due under the Domestic Water Swap Agreement and any future swap contract that may be entered into in connection with variable rate financing for the Domestic Water Project (“Debt Service”). Debt Service Payments received by the District from the City pursuant to the Treatment and Delivery Agreement are referred to herein as “Treatment and Delivery Revenues.” See “THE DOMESTIC WATER PROJECT – The Treatment and Delivery Agreement” for a further discussion of the Payments required to be made by the City under the Treatment and Delivery Agreement.

Pledge of Treatment and Delivery Revenues. Pursuant to the Installment Purchase Contract, the District has pledged to the payment of the Series 2013 Installment Payments, the Series 2007 Installment Payments, all payments due under the Domestic Water Swap Agreement (hereinafter, “Domestic Water Swap Installment Payments”) and all payments under any contracts of the District hereafter authorized in connection with the financing of the Domestic Water Project the installment payments under which are payable on a parity with the Series 2013 Installment Payments, the Series 2007 Installment Payments and the Domestic Water Swap Installment Payments (all of the foregoing payments collectively, the “Domestic Water Installment Payments”), all Treatment and Delivery Revenues received by the District from the City pursuant to the Treatment and Delivery Agreement; and such Treatment and Delivery Revenues shall not be used for any other purpose while any of the Domestic Water Installment Payments remain unpaid; provided, however, that out of Treatment and Delivery Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Contract and the 2007 Installment Purchase Contract. Such pledge shall constitute a first lien on the Treatment and Delivery Revenues for the payment of the Domestic Water Installment Payments and all other Domestic Water Contracts (as defined in Appendix C hereto) and Domestic Water Bonds (collectively “Domestic Water Obligations”) in accordance with the terms of the Installment Purchase Contract and the 2007 Installment Purchase Contract; provided, however, that such pledge shall secure any portion of the Domestic Water Swap Installment Payments that constitute termination payments under the Domestic Water Swap Agreement (or any future swap agreement entered into in connection with the financing of

the Domestic Water Project) on a second lien subordinate basis and such security for such termination payments shall be junior to the pledge of Treatment and Delivery Revenues securing other Domestic Water Installment Payments.

City Obligations Limited to City Gross Water Revenues; Pledge of City Gross Water Revenues.

The obligation of the City to make Payments under the Treatment and Delivery Agreement is limited to City Gross Water Revenues. “City Gross Water Revenues” is defined in the Treatment and Delivery Agreement as all gross income and revenue received or receivable by the City from the ownership and operation of the City Water Utility System (see “THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM”), which gross income and revenue shall be calculated in accordance with generally accepted accounting principles, including all rates, fees and charges received by the City for water service and connection and hookup fees and all other income and revenue however derived by the City from the ownership and operation of or arising from the City Water Utility System, but excluding in all cases any proceeds of taxes and any refundable deposits made to establish credit, federal or state grants, or advances or contributions in aid of construction, or monetary recoveries in lawsuits on behalf of City’s water rate payers for environmental and other torts and actions at law.

All City Gross Water Revenues are irrevocably pledged to the punctual payment of principal and interest and redemption premiums, if any, evidenced by the Domestic Water Obligations (including the payment of amounts due under the Domestic Water Swap Agreement), all as represented by the Debt Service component of the Payments made by the City pursuant to the Treatment and Delivery Agreement. Such pledge shall constitute a lien on and security interest in City Gross Water Revenues. Such pledge is on a parity with the pledge of City Gross Water Revenues for the payment of all obligations of the City heretofore or hereafter to be incurred by the City payable from and secured by a lien on the City Gross Water Revenues on a parity with the obligations of the City with respect to the Domestic Water Obligations, subject to the terms of the Treatment and Delivery Agreement (see “ – *Additional Encumbrances of City Gross Water Revenues*” below). The pledge of City Gross Water Revenues for the payment of termination amounts due under the Domestic Water Swap Agreement shall be on a basis subordinate to the pledge for the payment of such parity obligations, and such termination payments shall constitute subordinate debt under the Treatment and Delivery Agreement.

THE OBLIGATION OF THE CITY TO MAKE PAYMENTS UNDER THE TREATMENT AND DELIVERY AGREEMENT IS A SPECIAL LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM CITY GROSS WATER REVENUES AS PROVIDED IN THE TREATMENT AND DELIVERY AGREEMENT. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR PAYMENTS UNDER THE TREATMENT AND DELIVERY AGREEMENT AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO SUCH PAYMENTS.

City Rate Covenant. Pursuant to the Treatment and Delivery Agreement, the City covenants, among other things, that it shall fix, prescribe and collect water rates and charges which shall be at least sufficient to yield City Gross Water Revenues during each fiscal year of the City in an amount equal to: (i) the payment obligations of the City under the Treatment and Delivery Agreement during the fiscal year other than Debt Service (see “THE DOMESTIC WATER PROJECT – The Treatment and Delivery Agreement”), plus (ii) maintenance and operation costs of the City Water Utility System to the extent not included in (i) above, plus (iii) 125% of the Debt Service to be paid during the fiscal year.

As described below under “– *Additional Encumbrances of City Gross Water Revenues*,” the City has in the past, and may in the future, issue or incur other obligations secured by a pledge of the City Gross Water Revenues on a parity with its obligations under the Treatment and Delivery Agreement. The City has covenanted under the Treatment and Delivery Agreement that it will require a covenant

substantially similar to the City Rate Covenant in the Treatment and Delivery Agreement with respect to all obligations issued by the City on a parity with its obligations under the Treatment and Delivery Agreement.

Additional Encumbrances of City Gross Water Revenues. In addition to its obligations under the Treatment and Delivery Agreement, including its obligations relating to the Series 2013 Installment Payments, the Series 2007 Installment Payments and the Domestic Water Swap Agreement, as of June 30, 2013, the City has outstanding \$45.86 million aggregate principal amount of Water Refunding Revenue Certificates of Participation, 2008 Series A (the “2008 City Certificates”) evidencing and representing the interests of the owners thereof in installment payments to be made by the City pursuant to the Master Installment Purchase Contract, dated as of November 1, 1997, as supplemented by the 2008 Supplemental Installment Purchase Contract, dated as of May 1, 2008 (collectively, the “Master Contract”), by and between the City and the Modesto Public Financing Authority, as well as, among other things, certain obligations under an interest rate swap agreement entered into by the City relating thereto as described below.

The 2008 City Certificates are variable rate certificates of participation in connection with which the City has entered into a reimbursement agreement with a bank to provide credit and liquidity support for such variable rate 2008 City Certificates in the form of a letter of credit. The obligation of the City to repay any amounts drawn under such letter of credit (in the case of a draw for liquidity upon a tender of such 2008 City Certificates, to the extent such repayment is not thereafter provided from remarketing proceeds) is payable on a parity with the City’s obligation to make installment payments relating to the 2008 City Certificates under the Master Contract and the City’s obligations to make Debt Service Payments under the Treatment and Delivery Agreement relating to the Series 2013 Water Bonds and the outstanding Series 2007 Water Bonds and the Domestic Water Swap Agreement. Unreimbursed amounts drawn under such letter of credit supporting such variable rate 2008 City Certificates bear interest at a maximum rate that may be substantially in excess of the rate evidenced by the related variable rate 2008 City Certificates.

In connection with the execution and delivery of certificates of participation that were refunded by the 2008 City Certificates, the City entered into an interest rate swap agreement in the form of an ISDA Master Agreement (Local Currency – Single Jurisdiction), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex and a Confirmation each dated as of and entered into on September 27, 2006, as amended in connection with the delivery of the 2008 City Certificates (collectively, the “2008 City Swap Agreement”) with Bank of America, N.A. (the “City Swap Provider”). The 2008 City Swap Agreement is scheduled to expire on the maturity date of the 2008 City Certificates; and the notional amount of the 2008 City Swap Agreement is scheduled to be reduced on the same dates and in the same amounts as the principal evidenced by the 2008 City Certificates is scheduled to be reduced. Pursuant to the 2008 City Swap Agreement, the City is required to make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest of 3.4747% per annum on an initial notional amount equal to the principal amount represented by the 2008 City Certificates. Certain of the amounts that may be payable by the City to the Swap Provider are insured pursuant to a policy of interest rate swap insurance (the “Swap Policy”) issued by Assured Guaranty Corp. In return, the Swap Provider is required to make periodic payments to the City calculated on the basis of a variable rate of interest equal to 63.7% percent of one month LIBOR plus 0.154% on the same notional amount. The amounts payable by each party pursuant to the 2008 City Swap Agreement are netted against the payments to be received by such party thereunder.

The 2008 City Swap Agreement was entered into to hedge the interest rate exposure on the 2008 City Certificates by synthetically converting the variable rate interest payments that the City is obligated to make with respect to the 2008 City Certificates into substantially fixed rate payments. However, there

is no guarantee that the floating rate payable to the City pursuant to the 2008 City Swap Agreement will match the variable interest rate on the associated 2008 City Certificates at all times or at any time. Generally, the floating rates payable to the City pursuant to the 2008 City Swap Agreement have not matched the variable interest rates on the associated 2008 City Certificates exactly. To the extent that the City Swap Provider is obligated to make a payment to the City under the 2008 City Swap Agreement that is less than the interest due on the associated 2008 City Certificates, the City is obligated to pay such insufficiency from City Gross Water Revenues.

Both the City and the City Swap Provider have the right to terminate the 2008 City Swap Agreement prior to its stated termination date under certain conditions. Any such termination could result in an obligation on the part of the City or the City Swap Provider to make termination payments to the other party, and the amount of such termination payments could be substantial. As of June 28, 2013, the City would have been required to pay a termination payment to the City Swap Provider if the 2008 City Swap Agreement were terminated as of such date in the estimated amount of approximately \$8.3 million.

The City's obligations under the 2008 City Swap Agreement to make scheduled payments and certain termination payments (but only if such termination payments are insured pursuant to the Swap Policy), as well as the City's obligation to repay any amounts which have been drawn under the Swap Policy that have not been reimbursed by the City, are payable on a parity with the City's obligation to make installment payments relating to the 2008 City Certificates under the Master Contract and the City's obligations to make Debt Service Payments under the Treatment and Delivery Agreement relating to the Series 2013 Water Bonds and the outstanding Series 2007 Water Bonds and the Domestic Water Swap Agreement. The City's obligations to make termination payments under the 2008 City Swap Agreement which are not insured are payable on a subordinate basis.

As of June 30, 2013, the City also had outstanding three long-term loans payable from City Gross Water Revenues: (i) a loan from the State of California Department of Water Resources in the outstanding principal amount of \$631,373 (the "CDWR Loan"), (ii) a loan payable to State of California Department of Public Health, the maximum loan amount under which is \$800,000, of which 50% or an estimated \$400,000 will not need to be repaid as described below (the "ARRA Water Grant"), and (iii) an advance from the District with respect to certain repairs and maintenance required to be undertaken at the Domestic Water Project in the aggregate outstanding principal amount of \$3,434,339 (the "MID Advance") being repaid over five years.

The CDWR Loan and the ARRA Water Grant were made to the City to provide assistance to the City in financing certain improvements to the City Water Utility System. The CDWR Loan is to be repaid by the City in semi-annual installments, including interest thereon at an annual rate of 3.2%, through October 1, 2015. The ARRA Water Grant constitutes funding in the form of a loan with forgiveness of a portion of the principal made by State under the provisions of California Safe Drinking Water State Revolving Fund Law of 1997, and the American Recovery and Reinvestment Act of 2009 (ARRA) Public Law 11 1-5. The ARRA Water Grant is to be repaid by the City over a 20-year term ending in 2032 at an annual interest rate of 2.5%. The MID Advance was made by the District to fund the costs of certain repairs and maintenance for the exterior insulation finish system and gutter systems, and certain metal and low sloped roofing replacement at the Domestic Water Project. Payments are being made by the City in annual installments with interest as provided in the Treatment and Delivery Agreement. The final installment to be paid by the City is due no later than July 31, 2014. The CDWR Loan and the ARRA Water Grant are payable on a parity with the City's obligation to make installment payments relating to the 2008 City Certificates under the Master Contract and the City's obligations to make Debt Service Payments under the Treatment and Delivery Agreement relating to the Series 2013 Water Bonds and the outstanding Series 2007 Water Bonds and the Domestic Water Swap Agreement. The MID

Advance is being repaid as an operating expense of the City Water Utility System (consistent with other payments under the Treatment and Delivery Agreement not constituting Debt Service).

The payment obligations of the City under the CDWR Loan, the ARRA Water Grant, the 2008 City Certificates and the interest rate swap agreement relating thereto, as well as certain payment obligations of the City under certain insurance and reimbursement agreements relating to the foregoing as described above, which obligations are secured by a pledge of City Gross Water Revenues on a parity with the City's obligations to make Debt Service Payments under the Treatment and Delivery Agreement are sometimes collectively referred to herein as the "City Parity Obligations."

The City may issue or incur other obligations secured by a pledge of the City Gross Water Revenues on a parity with its obligations to make Debt Service Payments under the Treatment and Delivery Agreement and its obligations with respect to the other outstanding City Parity Obligations, subject to the terms and conditions of the Treatment and Delivery Agreement and the Master Contract.

Pursuant to the Treatment and Delivery Agreement, the City has covenanted that it will require a covenant substantially similar to the City rate covenant in the Treatment and Delivery Agreement with respect to all obligations issued by the City on a parity with its obligations under the Treatment and Delivery Agreement. The City may also issue or incur loans, bonds, notes, advances or indebtedness payable from City Gross Water Revenues on a junior and subordinated basis to its obligations under the Treatment and Delivery Agreement and the Master Contract in such principal amount as shall be determined by the City. The City will not incur any obligations payable from City Gross Water Revenues prior to its obligations under the Treatment and Delivery Agreement and the Master Contract.

Limited Take-or-Pay Obligation. The Treatment and Delivery Agreement provides that, except as limited by the next sentence, the City shall pay the fixed costs of the Domestic Water Project and its Debt Service Payment obligations whether or not the Domestic Water Project or any part of it is operating or operable or its output or capability is suspended, interrupted, interfered with, reduced or curtailed, or terminated in whole or in part. The payments of such fixed costs of the Domestic Water Project and Debt Service shall not be subject to reduction whether by offset, counterclaim, recoupment, or otherwise and shall not be conditioned upon the performance or nonperformance by the District or the City of any agreement or for any cause or reason whatsoever; provided, however, that the City shall not be required to pay Debt Service or fixed costs, in the event any of the following certain specified conditions shall occur:

- (i) The District, for any reason other than drought, shall fail to deliver at least 50% of the treated water which the City is to receive under the Treatment and Delivery Agreement for a period in excess of 18 consecutive months.
- (ii) 80% or more of the water treatment plant component of the Domestic Water Project shall be destroyed or disabled for a period in excess of 24 consecutive months.
- (iii) 50% or more of the District's total annual water supply, as adjusted pursuant to the Treatment and Delivery Agreement, shall be lost or unavailable for physical reasons beyond the District's best efforts to control, other than drought, for a period in excess of 24 consecutive months.

Special Budgeting Covenant of the District. Pursuant to the Installment Purchase Contract, the District has covenanted that in the event Treatment and Delivery Revenues and other amounts pledged under the Trust Agreement are insufficient to pay in full any amount then due and payable with respect to the Series 2013 Water Bonds, due to the suspension of the City's obligation to pay as described above

under “–*Limited Take-or-Pay Obligation*” or otherwise, an Authorized District Representative shall submit to the Board of Directors of the District a special budget item requesting a special appropriation from the Board of Directors of the District of the amount of such insufficiency; provided, however, the Board of Directors of the District shall have absolute discretion in determining whether such a special appropriation shall be made, and a determination not to make a special appropriation shall not in and of itself constitute an Event of Default under the Installment Purchase Contract. In the event of such insufficiency of Treatment and Delivery Revenues and a decision by the Board of Directors of the District not to make such special appropriation to pay interest and principal on the Series 2013 Water Bonds, there are no other amounts pledged to the payment of the Series 2013 Water Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

Reserve and Contingency Fund. Pursuant to the Treatment and Delivery Agreement, the District has established and maintains a Reserve and Contingency Fund. The Reserve and Contingency Fund was initially funded in the amount of \$500,000. The District may from time to time increase or decrease the amount required to be on deposit in the Reserve and Contingency Fund, subject to the requirements of the Treatment and Delivery Agreement. In the event of an increase in the amount required to be on deposit in the Reserve and Contingency Fund, such additional amount shall be funded in monthly installments made by the City over the next ensuing Domestic Water Year. In the event of a decrease in amounts required to be deposited therein, the excess amount shall be credited against Payments due from the City during the next succeeding Domestic Water Year. As of June 30, 2013, amounts on deposit in the Reserve and Contingency Fund were approximately \$847,615.

Amounts credited to the Reserve and Contingency Fund received from the City may be applied by the District to pay, among other things, Debt Service in the event Treatment and Delivery Revenues are insufficient therefor.

If at any time the Reserve and Contingency Fund is depleted or contains insufficient funds so that the District must advance funds which otherwise would be obtained from withdrawals from the Reserve and Contingency Fund, then the aggregate amount of the advances during any year and the amount necessary to replenish the Reserve and Contingency Fund to its established balance shall be added to the payments to be made by the City during the next ensuing Domestic Water Year.

Series 2013 Reserve Fund

General. The Series 2013 Reserve Fund will be established with and held by the Depositary. The Installment Purchase Contract provides for the funding of the Series 2013 Reserve Fund in an amount equal to the Series 2013 Reserve Fund Requirement, defined as an amount equal to the maximum annual Series 2013 Installment Payments. In the event that Series 2013 Installment Payments paid by the District to the Trustee are insufficient to pay principal of and interest on the Series 2013 Water Bonds when due, the Depositary shall transfer from the Series 2013 Reserve Fund the amount of such insufficiency. The Series 2013 Reserve Fund is not available for the payment of Domestic Water Bonds other than the Series 2013 Water Bonds.

In the event amounts on deposit in the Series 2013 Reserve Fund are less than the Series 2013 Reserve Fund Requirement, the District is required to deposit monthly, from moneys remaining in the Domestic Water Project Revenue Fund after the required deposits for the payment of principal and interest on all Domestic Water Obligations, 1/12 of the amount necessary to restore the Series 2013 Reserve Fund to an amount equal to the Series 2013 Reserve Fund Requirement.

The District may provide for the Series 2013 Reserve Fund by a policy of insurance issued by a municipal bond insurance company the claims paying ability of which is rated at the time of deposit

thereof into the Series 2013 Reserve Fund not lower than the then applicable rating on the Series 2013 Water Bonds by any of Moody's Investors Service, Standard & Poor's Rating Group or Fitch Ratings, or by a letter of credit or other credit facility issued by a bank or other financial institution, the obligations of which are rated at the time of deposit thereof into the Series 2013 Reserve Fund not lower than the then applicable rating on the Series 2013 Water Bonds by any of Moody's Investors Service, Standard & Poor's Rating Group or Fitch Ratings, in each case, if such rating agency is then rating obligations of the District. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Summary of Installment Purchase Contract – Revenues – Series 2013G Reserve Fund."

Reserve Policy. Upon the delivery of the Series 2013 Water Bonds, there will be credited to the Series 2013 Reserve Fund a municipal bond debt service reserve insurance policy (the "Reserve Policy") issued by Assured Guaranty Municipal Corp. (the "Reserve Insurer") with a policy limit in the amount of the Series 2013 Reserve Fund Requirement (being, upon the delivery of the Series 2013 Water Bonds, \$5,974,700. The Reserve Policy provides that upon notice from the Trustee to the Reserve Insurer to the effect that insufficient amounts are on deposit in the Series 2013G Revenue Fund under the Trust Agreement to pay the principal of (at maturity or pursuant to mandatory sinking fund redemption requirements, if applicable) and interest on the Series 2013 Water Bonds, the Reserve Insurer will promptly deposit with the Trustee that portion of the principal of and interest on the Series 2013 Water Bonds that shall be due for payment but shall be unpaid by reason of nonpayment by the Authority or the Policy Limit, whichever is less. Pursuant to the Trust Agreement, the Trustee will use all available cash, if any, in the Series 2013 Reserve Fund prior to making a claim on the Reserve Policy. The Policy Limit is the dollar amount of the Series 2013 Reserve Fund Requirement required to be maintained in the Series 2013 Reserve Fund for the Series 2013 Water Bonds from time to time (less the amount of any previous deposits by the Reserve Insurer with the Trustee which have not been reimbursed by the Authority as described below), but in no event shall the Policy Limit exceed \$5,974,700. Pursuant to the terms of the Reserve Policy, the Policy Limit is automatically reduced to the extent of each payment made by the Reserve Insurer under the terms of the Reserve Policy. The District is required to reimburse the Reserve Insurer from first available Treatment and Delivery Revenues for any draws under the Reserve Policy with interest as provided in the Installment Purchase Contract. Upon such reimbursement, the amount available under the Reserve Policy is reinstated to the extent of each reimbursement up to but only up to the Policy Limit. The Installment Purchase Contract provides that in replenishing the Series 2013 Reserve Fund, the Trustee will apply amounts received from the District for such purpose first to make any payment that is due under a guaranty or insurance agreement or similar instrument relating to a surety bond or insurance policy (including the Reserve Policy) on deposit in or credited to the Series 2013 Reserve Fund prior to depositing any such funds in the Series 2013 Reserve Fund.

Insurance

The District covenants pursuant to the Installment Purchase Contract that it will procure and maintain or cause to be procured and maintained insurance on the Domestic Water Project with responsible insurers in such amounts and against such risks (including accident to or destruction of the Domestic Water Project) as are usually covered in connection with domestic water systems similar to the Domestic Water Project so long as such insurance is available from reputable insurance companies at reasonable costs. See APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Summary of Installment Purchase Contract – Covenants of the District – Insurance."

BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS

Bond Insurance Policy

Concurrently with the issuance of the Series 2013 Water Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Series 2013 Water Bonds maturing on September 1 of the years 2019 through 2022, inclusive (as defined herein, the “Insured Series 2013 Water Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Series 2013 Water Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA-” (stable outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On June 12, 2013, S&P published a report in which it affirmed AGM’s “AA-” (stable outlook) financial strength rating. AGM can give no assurance as to any further ratings action that S&P may take.

On January 17, 2013, Moody’s issued a press release stating that it had downgraded AGM’s insurance financial strength rating to “A2” (stable outlook) from “Aa3”. AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013.

Capitalization of AGM. At March 31, 2013, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,468,362,848 and its total net unearned premium reserve was approximately \$1,990,661,506, in each case, in accordance with statutory accounting principles.

For additional information relating to the capitalization of AGM, please see the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "SEC") on July 22, 2013 (excluding the portion thereof "furnished" under Item 7.01 of such Form).

Incorporation of Certain Documents by Reference. Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (filed by AGL with the SEC on March 1, 2013); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (filed by AGL with the SEC on May 10, 2013).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, (excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K) after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters. AGM or one of its affiliates may purchase a portion of the Insured Series 2013 Water Bonds or any uninsured Series 2013 Water Bonds offered under this Official Statement and such purchases may constitute a significant proportion of the Series 2013 Water Bonds offered. AGM or such affiliate may hold such Insured Series 2013 Water Bonds or uninsured Series 2013 Water Bonds for investment or may sell or otherwise dispose of such Insured Series 2013 Water Bonds or uninsured Series 2013 Water Bonds at any time or from time to time.

AGM makes no representation regarding the Series 2013 Water Bonds or the advisability of investing in the Series 2013 Water Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the

heading “BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS” and in APPENDIX H – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY FOR THE INSURED SERIES 2013 WATER BONDS.”

THE DOMESTIC WATER PROJECT

Background and History

Since 1904, the District has supplied all water for agricultural uses within its irrigation service area, primarily from its perfected water rights to Tuolumne River water. Water for municipal and industrial uses within the Modesto area was historically supplied by the City (since 1895) and the Del Este Water Company (since 1912), solely from groundwater sources. As hereinafter described, in July 1995, the City purchased substantially all of the assets and liabilities of Del Este and since that time has provided water for municipal and industrial uses within a water service area including all of the property within the corporate boundaries of the City and the communities of Salida, Waterford, Empire, Hickman, Grayson, and parts of Turlock, Ceres and Del Rio. See “THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM” and “APPENDIX B – CERTAIN INFORMATION REGARDING THE CITY OF MODESTO.” Rapid urbanization of the region in the last few decades has resulted in a reduction in the irrigated acreage within the District’s service area and an increase in the demand for municipal water uses, with a corresponding decline in groundwater availability and quality. Beginning in 1984, the District, the City and Del Este retained James M. Montgomery, Consulting Engineers, Inc. (“JMM”) to undertake a series of studies resulting in the development of a water management plan for the conjunctive use of groundwater and treated surface water to meet the area’s municipal and industrial water needs, while protecting and managing the limited groundwater resources. As a result of these studies, the District, in cooperation with the City and Del Este, determined to undertake the Domestic Water Project.

In April 1992, the District entered into the Treatment and Delivery Agreement with the City and Del Este. Pursuant to the Treatment and Delivery Agreement, the District agreed to construct and operate the Domestic Water Project and to supply treated water from the Domestic Water Project to the City and Del Este, in consideration for which the City and Del Este agreed to pay the costs of acquisition and construction and operation of the Domestic Water Project. Pursuant to the Treatment and Delivery Agreement, the City was initially allocated a 70% share of the output of the Domestic Water Project, and was likewise responsible for 70% of the costs of the Domestic Water Project; Del Este was allocated a 30% share of the output of the Domestic Water Project and was likewise responsible for 30% of its cost. Proceeds of the Series 1998D Water Bonds (which are being refunded by the Series 2013 Water Bonds) were used to refund bonds issued by the Authority in 1992 and 1995 issued to finance the costs of the acquisition and construction of the first phase of the Domestic Water Project, which was designed by Black & Veatch Corporation, as consulting engineers, and placed into operation in 1995. Proceeds of the outstanding Series 2007 Water Bonds were issued to finance the costs of the Phase Two Expansion of the Domestic Water Project, the completion of which has been delayed and is not expected to occur before July of 2015. See “– Domestic Water Project Description” below.

In July 1995, the City purchased substantially all of the assets and liabilities of Del Este and in accordance with the provisions of the Treatment and Delivery Agreement assumed all interests, rights and obligations of Del Este under the Treatment and Delivery Agreement. Accordingly, since that time Del Este has had no further obligation to make payments under the Treatment and Delivery Agreement or otherwise with respect to any Domestic Water Bonds.

Domestic Water Project Description

The Domestic Water Project consists of a surface water treatment plant, transmission, storage and distribution facilities. The design capacity of the initial Domestic Water Project facilities was approximately 36 million gallons per day of treated surface water. The water treatment plant is located directly south of the Modesto Reservoir on an approximately 30 acre site, about 15 miles east of the City. The District supplies raw water to the treatment plant. The raw water supply system consists of an intake structure and a delivery pipeline to the plant. Treated water is pumped from two 2.5 million gallon treated water storage reservoirs through approximately 14 miles of transmission pipeline to two five-million gallon terminal storage reservoirs. The water is then distributed through approximately 14 miles of transmission mains to distribution mains in the City's Municipal Water System.

Construction of the initial Domestic Water Project facilities began in October 1992 and the initial Domestic Water Project facilities were placed into operation in January 1995. The actual total cost of acquisition and construction of the initial Domestic Water Project facilities (including contingencies but exclusive of interest during construction, allowance for funds utilized during construction, debt service reserve funds and any financing costs of the Authority) was \$95.877 million. The initial Domestic Water Project facilities were completed 9% under budget.

To help ensure that the District will be able to deliver a firm drinking water supply to the City, the District petitioned and received from the California State Water Resources Control Board (the "SWRCB") permission to treat and deliver to the City water stored in Don Pedro Reservoir (WR Order No. 2005-0022-DWR). The water treated during the initial phase of the water treatment plant was supplied by the District's pre-1914 water rights. In connection with the Phase Two Expansion of the Domestic Water Project, the District obtained from the SWRCB WR Order No. 2005-0022-DWR, which amended a license held by the District and Turlock Irrigation District (License 11058) which authorizes the District and Turlock Irrigation District to store up to 1,046,800 acre-feet of water in Don Pedro Reservoir between November 1 and the succeeding July 31 for irrigation and recreational use. WR Order No. 2005-0022-DWR authorized a long-term transfer, effective through December 31, 2054, of up to 67,200 acre-feet of water per year to the City and added municipal and industrial purposes to the uses of water permitted under the transfer. During the period of the long-term transfer, the District is required to comply with all of the terms and conditions required by the Federal Energy Regulatory Commission for the Don Pedro Project. In addition, pursuant to California Water Code Sections 100 and 275 as well as the common law public trust doctrine, all rights and privileges under the long-term transfer order, including method of diversion, method of use and quantity of water diverted, are subject to the continuing authority of the SWRCB in accordance with law and in the interest of the public welfare to protect public trust uses and to prevent waste, unreasonable use, unreasonable method of use or unreasonable method of diversion. The District will utilize water held under this licensed right, or both rights, to serve the expanded plant.

In 2007, the District and the City agreed upon an expansion of the initial Domestic Water Project facilities beyond the existing design capacity of 36 million gallons per day ("MGD") to a design capacity of 72 MGD (referred to as the Phase Two Expansion). The Phase Two Expansion was designed to add a 36 MGD membrane filtration plant, while essentially leaving the original Domestic Water Project treatment facilities in place. A contract for the design and management of the construction of the Phase Two Expansion project was awarded by the District to Black & Veatch Corporation. The membrane filtration plant employs a microfiltration technology involving the installation of a series of submerged membranes for the treatment of surface water. In addition to the membrane filtration systems, other major categories of equipment included in the Phase Two Expansion project were ozone system modifications, a dissolved air flotation treatment system, chemical feed building modifications, replacement of the Supervisory Control and Data Acquisition and Programmable Logic Controller

computer systems that control plant operations, and treated water pumping system modifications. Source water for the Phase Two Expansion will be supplied by the District from the existing intake from Modesto Reservoir, which will flow by gravity to the water treatment plant. Raw water will flow through a 60-inch water line that will empty into a raw water head tank which will serve as the primary controlled water service elevation upstream of the membrane system. The Phase Two Expansion project includes the installation of a rapid mix pump station downstream of the raw water head tank to mix alum with the raw water for the purpose of improving membrane performance. The submerged membrane treatment will be followed by application of ozone through new oxygen-fed ozone generators which will provide ozone for both the existing and new treatment facilities. A dissolved air flotation unit, which removes solids and other contaminants using air flotation, will be supplied for the existing conventional solids handling system. Additional solids handling facilities will be installed for the new membrane filtration system. The treated water pumps will convey treated water to the Terminal Reservoir Pump Station. A contract for the construction of the Phase Two Expansion project was awarded by the District to Western Summit Constructors, Inc. on May 22, 2007. The originally estimated cost of the Phase Two Expansion was approximately \$77.2 million.

Completion of the Phase Two Expansion project is currently expected to occur in July of 2015. This estimated completion date of the expansion represents a delay of over five years past its originally scheduled completion date. By virtue of that delay, as well as remedial action which the District has undertaken and will undertake in the future, multimillion dollar cost overruns have been experienced. Litigation involving the District, the City and the Phase Two Expansion project design engineer, construction manager, general contractor, suppliers and subcontractors ensued and has been recently settled. The settlement consists of cash payments, discounts, compromised reimbursement claims and other contractual/economic concessions. The Engineer of Record, Construction Manager and Construction Consultant have advised the District that based upon preliminary construction cost estimates and after application of the settlement proceeds, an additional \$8.9 million to \$9.4 million in funds (as updated to reflect most recent cost estimates as of August 5, 2013) will be needed to complete the Phase Two Expansion project by the currently targeted July 2015 completion date (the "Increased Phase Two Expansion Costs"). The City and the District are reviewing the options to complete the project and, in the respective views of the parties, the applicable cost responsibility for the Increased Phase Two Expansion Costs under the terms of the Treatment and Delivery Agreement. On August 6, 2013, the District filed an action with the Stanislaus Superior Court seeking declaratory relief (the "Declaratory Relief Action") to clarify provisions of the Treatment and Delivery Agreement that would determine cost responsibility, as between the City and the District, for the Increased Phase Two Expansion Costs, including, but not limited to, whether certain indemnity provisions of the Treatment and Delivery Agreement apply to relieve the City of responsibility for the Increased Phase Two Expansion Costs. Neither the City nor the District believes that the Declaratory Relief Action will have a material adverse impact on the payment of the Series 2013 Installment Payments or the Series 2013 Water Bonds.

In the absence of a funding plan for the Increased Phase Two Expansion Costs being secured by October 1, 2013, completion of construction of the Phase Two Expansion could be deferred beyond the targeted 2015 completion date and have a higher cost. In the event construction activities are deferred past January 1, 2015, certain elements of the settlement would no longer be available. In such event, the District has estimated the unfunded costs to complete construction of the Phase Two Expansion could be as high as \$18 million. Other identified options include completing the Phase Two Expansion with a reduced treatment capacity, which would reduce the shortfall in available construction funds but is expected to result in increased operation and maintenance costs of the project, or abandoning completion of the Phase Two Expansion project until sometime in the more distant future. To the extent additional funding (either for construction costs or for increased operation and maintenance costs) is ultimately determined to be required from the City, future rate increases beyond those currently projected by the City could be necessary in order to assure compliance with the City Rate Covenant. Any such future rate

increases would be subject to City Council approval. See “THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Water Charges and Billing” and “– Certain Limitations on City Imposition of City Water Utility System Fees and Charges.” See also “CERTAIN RISK FACTORS.” As described herein under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Limited Take-or-Pay Obligation*,” pursuant to the Treatment and Delivery Agreement, except under certain limited circumstances, commencing at the time that Debt Service Payments commence in connection with any applicable financing for the Domestic Water Project, the City is obligated to make such Debt Service Payments from City Gross Water Revenues pledged therefor under the Treatment and Delivery Agreement whether or not the Domestic Water Project or any part of it is operating or operable or its output or capability is suspended, interrupted, interfered with, reduced or curtailed, or terminated in whole or in part.

The Treatment and Delivery Agreement

General. The Domestic Water Project (including the Phase Two Expansion) will be operated pursuant to the Treatment and Delivery Agreement. In accordance with the Treatment and Delivery Agreement, the District designed, financed and constructed the Domestic Water Project and owns, operates and maintains the Domestic Water Project for the purposes of treatment and delivery of water to the City. The District may not assign its maintenance and operation responsibility for the Domestic Water Project without the consent of the City. The City is granted a permanent beneficial interest in the Domestic Water Project output, which may not be transferred or assigned without the consent of the District.

Obligations of the City. The City has agreed to pay all costs and expenses of all phases of the Domestic Water Project, including (i) payments of Debt Service (including the Series 2007 Water Bonds and the Series 2013 Water Bonds) in connection with the financing of the Domestic Water Project, (ii) raw water charges for raw water furnished to the Domestic Water Project by the District, (iii) payments of operation, maintenance, repair, replacement and modification costs attributable to the operation of the Domestic Water Project, (iv) costs of administrative services of the District attributable to the operation of the Domestic Water Project and the administration of the Treatment and Delivery Agreement, (v) costs of insurance required to be maintained by the District pursuant to the Treatment and Delivery Agreement (as described below), (vi) cost of electric energy provided to the Domestic Water Project by the District, and (vii) other payments or costs (and deductions from payments or costs from the Reserve and Contingency Fund, the Series 2007 Reserve Fund and the Series 2013 Reserve Fund) and other amounts as specified by the Treatment and Delivery Agreement.

Exchange of Groundwater for Treated Water. Upon completion of the Phase Two Expansion, the District will be able to treat an average annual amount of 60 million gallons per day (67,204 acre feet/year) of water at the Domestic Water Project for the City, subject to a lesser allocation of treated water in the event of drought or other contingencies as provided in the Treatment and Delivery Agreement. In the event of a reduced allocation in any year, the City may deliver groundwater to the District’s irrigation canal system for use by the District’s irrigation system in exchange for an additional amount of treated water (subject to the absolute limitation of 67,204 acre feet/year). The City will bear all costs, including the costs of additional capital facilities, if any are necessary, associated with delivering the exchange groundwater supply to the District’s irrigation system as described above. The District may not sell any treated water from the Domestic Water Project without first offering such water to the City. Treated water delivered by the District to the City must be utilized by the City within the District’s irrigation service area. The District will consult with the City regularly with respect to the scheduling of delivery of treated water from the Domestic Water Project. The District shall be excused from its obligation to deliver treated water in the event that the District is rendered unable, wholly or in part, by force majeure to carry out its obligations under the Treatment and Delivery Agreement. Upon the

occurrence of any event of force majeure which impacts the District's ability to deliver treated water, the provisions of the Treatment and Delivery Agreement discussed under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Limited Take-or-Pay Obligation*" shall be determinative as to whether the City is excused from its obligation to pay Debt Service and fixed costs pursuant to the Treatment and Delivery Agreement.

Project Management. Pursuant to the Treatment and Delivery Agreement two advisory committees are formed for the purposes of the Domestic Water Project, the Policy Committee and the Technical Committee. Each of these Committees includes representatives from the District and the City.

The Board of Directors of the District has the authority to make final decisions with respect to the Domestic Water Project, subject to the rights of the City to review and advise the District with respect to certain budgetary matters as provided in the Treatment and Delivery Agreement.

See also "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement" for additional information regarding the terms of the Treatment and Delivery Agreement.

THE AUTHORITY

The Authority was created in July 1989 by the Joint Exercise of Powers Agreement which was entered into between the District and Redding pursuant to the Joint Exercise of Powers Act. The Authority has the power to enter into contracts, such as the Installment Purchase Contract, to assist the District and Redding in financing public capital improvements, working capital, liability and other insurance needs and other projects whenever there are significant public benefits, as determined by the District or Redding, as appropriate. The Authority is administered by a governing board consisting of the board of directors of the District. Under the Joint Exercise of Powers Agreement, the Authority is a public entity, separate from the District and Redding. The debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of Redding or the District.

THE MODESTO IRRIGATION DISTRICT

The following information regarding the District's irrigation and electric systems is provided for informational purposes only. *The Series 2013 Water Bonds are payable solely from the Revenues pledged therefor under the Trust Agreement, consisting primarily of the 2013 Installments Payments made by the District and received by the Authority pursuant to the Installment Purchase Contract. The Series 2013 Installment Payments to be made by the District under the Installment Purchase Contract are payable solely from Treatment and Delivery Revenues received by the District from the City pursuant to the Treatment and Delivery Agreement. Other revenues of the District are neither pledged to, nor available for, any payment with respect to the Installment Purchase Contract or the Series 2013 Water Bonds, provided that the District has covenanted to submit to the Board of Directors of the District a special budget item requesting a special appropriation in the amount of any deficiency in Revenues necessary to pay the Series 2013 Water Bonds. The Board of Directors of the District shall have absolute discretion in determining whether such a special appropriation shall be made. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS –The Treatment and Delivery Agreement – *Special Budgeting Covenant of the District.*"*

The District is a California irrigation district organized in 1887 under the provisions of the California Irrigation District Act, Division 11 of the California Water Code (the "Irrigation District Act"). The District has the powers under the Irrigation District Act to, among other things, provide irrigation and electric service within its irrigation and electric service areas. In connection therewith, the District has the

powers of eminent domain, to contract, to construct works, to fix rates and charges for commodities or services furnished and to incur indebtedness.

The District is governed by a board of directors, the five members of which are elected from separate electoral divisions of the District for staggered four-year terms. The members of the board of directors also serve as the governing board of the Authority.

The District is located in the San Joaquin Valley of central California, approximately 90 miles east of San Francisco, California. The District began providing electric service in 1923, and since 1940 has provided all electric service within its original 160 square mile service area, which includes the major portion of Stanislaus County. Beginning in 1996, the District has also provided electric service on a competitive basis in portions of the service area of Pacific Gas & Electric Company (“PG&E”). California Assembly Bill 2638 (“AB 2638”), effective on January 1, 2001, added the 7.5 square mile Mountain House Community Services District in western San Joaquin County to the District’s exclusive electric service area and also designated a 400 square mile area in Southern San Joaquin County, Northern Stanislaus County, and western Tuolumne County as the District’s non-exclusive electric service area. Pursuant to AB 2638, other than as set forth therein, the District is further prohibited from providing electric transmission or distribution service to retail customers in the service territory of PG&E. For the year ended December 31, 2012, the District served 113,931 customers, had total retail sales of 2.508 billion kWh and a peak demand of 655 MW.

To provide electric service within its service area, the District owns and operates an electric system which includes generation, transmission and distribution facilities. The District also purchases and sells power and transmission service and participates in pooling and other utility arrangements.

The District also supplies water for irrigation use in portions of Stanislaus County. The District receives virtually all of its water supply from the Tuolumne River, pursuant to vested water rights. The District historically has been capable of supplementing its surface water supply by pumping groundwater during periods of drought. Prior to the construction of the Domestic Water Project, the groundwater resource were in a condition of overdraft. Pursuant to the Treatment and Delivery Agreement, the City exchanged groundwater for surface treated water which halted the overdraft condition. The District’s irrigation facilities include the Don Pedro Reservoir, the La Grange Diversion Dam, the Modesto Reservoir, and a canal network.

The audited financial statements of the District for the fiscal year ended December 31, 2012 have been filed with the EMMA and are hereby incorporated herein by reference.

THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM

The following information concerning the City Municipal Water Utility System (referred to herein as the “City Water Utility System”) was obtained from City officials except where otherwise indicated.

History of the City Water Utility System

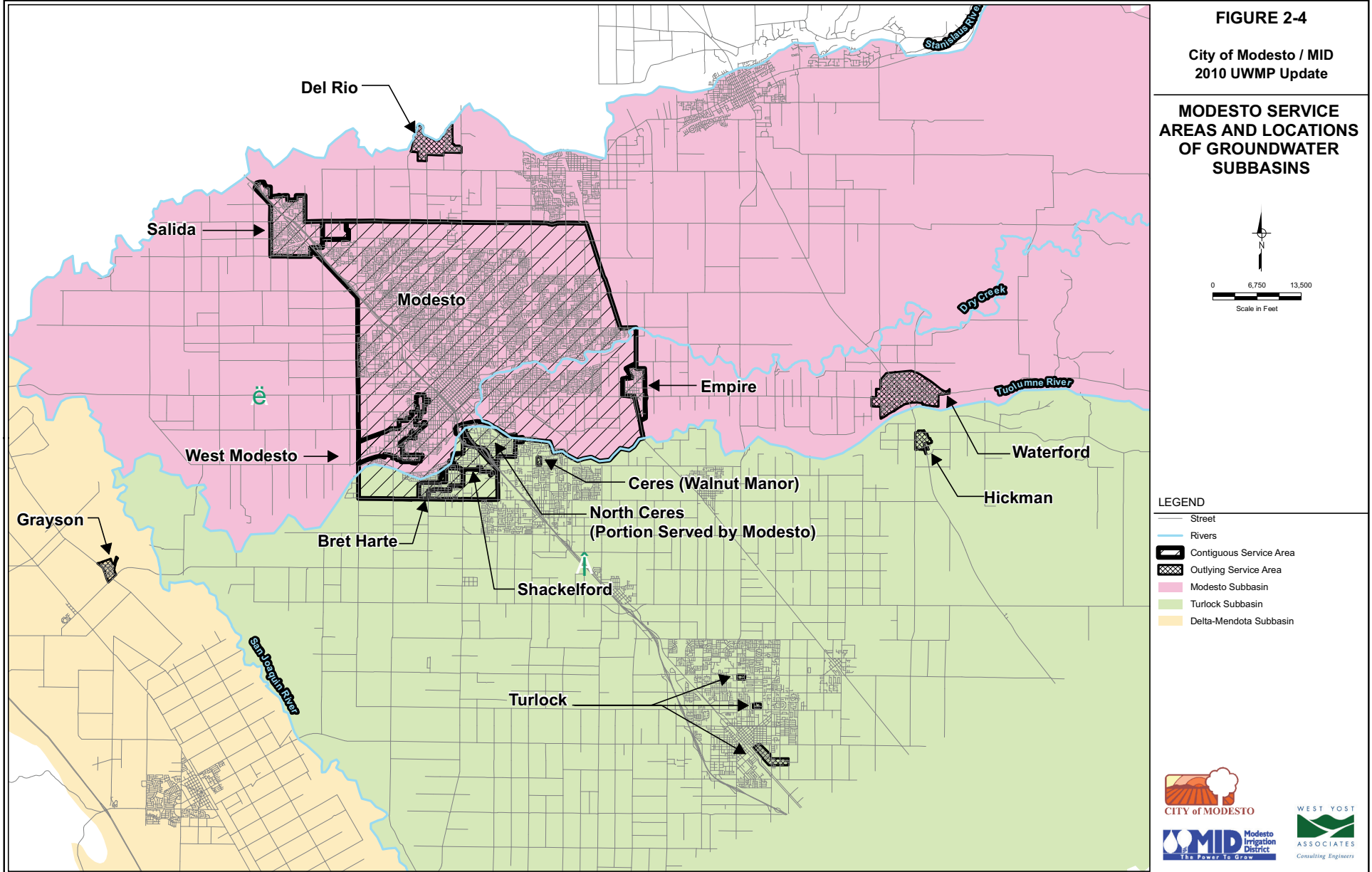
The origin of the City Water Utility System dates back to 1876 when a privately-owned utility, later known as the Modesto Water Company, was established to provide water services to the village of Modesto. In 1895, the City purchased the Modesto Water Company, and in subsequent years purchased other local water systems that have been incorporated in the present City Water Utility System.

In April 1992, the City entered into the original Treatment and Delivery Agreement with the District and Del Este, providing for a supply of treated water for the City and Del Este from the District's Domestic Water Project. See "– Sources of Water" below. In July 1995, the City purchased substantially all of the assets and liabilities of Del Este, the last private water company within City limits. The acquisition included Del Este's other water service areas, including the communities of Salida, Waterford, Empire, Hickman, Grayson, and parts of Turlock, Ceres and Del Rio Estates. As a consequence of the varying operating conditions among these communities, the City initially operated the City Water Utility System in three separate zones. However, the three zones were essentially merged into a single zone for rate purposes when the City Council of the City (the "City Council") adopted a new rate structure that went into effect on January 1, 2005. On October 11, 2005, the original agreement was amended and restated to include the Phase Two Expansion project.

In general terms, the City's total water service area consists of one large contiguous area and several outlying, non-contiguous service areas. The contiguous water area includes all of the property currently within the corporate boundaries of the City as well as the property located within its sphere of influence and properties located within the communities of Ceres, Empire and Salida. There are five outlying non-contiguous water service areas. They are the communities of Del Rio, Grayson, Hickman and Waterford, as well as portions of the City of Turlock.

A map showing the City's water service area appears on the following page.

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Existing Facilities

The principal facilities of the existing City Water Utility System consist of 110 domestic wells (96 of which are currently active), over 900 miles of mains, nine storage tanks, the District's Domestic Water Project and a terminal storage area serving surface water and/or groundwater to its customers through nearly 77,000 water connections.

The District surface water is treated at the Domestic Water Project and conveyed to the City via transmission mains for direct use in the contiguous portion of the City's water service area. The City's facilities are designed to deliver both surface water and groundwater. The Domestic Water Project does not provide surface water to the outlying portions of the City's water service areas including those portions that are outside of the District's authorized service boundaries, which are served through groundwater wells.

Groundwater is pumped directly from the wells into the distribution system, which consists of 900 miles of water mains and pipelines. Most of the larger water mains are 10- and 12-inch diameter pipelines which have been installed by the City. The installation of smaller pipelines in subdivisions is typically the responsibility of the subdivider. Nine ground level tanks and booster pump stations provide storage capacities ranging from 500,000 to 4,000,000 gallons each.

The following table sets forth statistical information relating to the City Water Utility System during the calendar years shown.

CITY WATER UTILITY SYSTEM STATISTICS (Calendar Years 2008 through 2012)

	2008	2009	2010	2011	2012
Number of Service Accounts	76,852	76,899	76,508	76,983	76,788
Total Water Production (MG) ⁽¹⁾	25,182	23,824	21,712	20,892	21,765
Capacity (MGD) ⁽²⁾	166.0	166.0	166.0	166.0	175.2
Peak Daily Distribution (MGD)	116.5	113.0	110.0	98.5	97.2
Average Daily Distribution (MGD)	68.8	65.3	59.5	57.2	59.5

⁽¹⁾ "MG" means million gallons.

⁽²⁾ "MGD" means million gallons daily.

Source: City of Modesto

During the five-year period covered by the table the City's population grew by approximately 0.94% while the aggregate volume of water sold declined by approximately 15.7%. Thus, on a per capita basis, consumption of water in the City's service area has been reduced over the course of this period. This reduction has been the result of many variables including metering, water conservation efforts, weather, system repairs, economic conditions, more efficient water consumption by customers and the availability of alternative water sources (onsite private wells).

Sources of Water

The City's primary sources of water supply are surface water provided by the District under the Treatment and Delivery Agreement and its local groundwater sources. The Domestic Water Project serves as the baseline supply, and seasonal demands are served by the groundwater wells. In general, the Domestic Water Project currently supplies approximately 55% of the City's water requirement during the winter and 40% thereof during the summer season. Groundwater supplies the remainder. The Phase Two Expansion project is expected to increase the nominal capacity of the Domestic Water Project from 36

MGD to 60 MGD with a peak capacity of 72 MGD. For a discussion of the Treatment and Delivery Agreement, see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement” and “THE DOMESTIC WATER PROJECT – The Treatment and Delivery Agreement.”

The following table sets forth the total water production for the City Water Utility System during the calendar years shown.

**CITY WATER UTILITY SYSTEM
Service Area Total Production (Billion Gallons)
(Calendar Years 2008 to 2012)**

Year Ending December 31	Well Water	Treated Water	Total
2008	14.74	10.44	25.18
2009	14.14	9.69	23.83
2010	11.32	10.39	21.71
2011	11.72	9.17	20.89
2012	11.57	10.19	21.76

Source: City of Modesto

Outside of the City corporate limits there are no regulations controlling the number of water wells that are drilled or the quantity of water pumped from such wells. Prior to the availability of surface water from the Domestic Water Project, the groundwater pumpage had been increasing and water levels had been declining since the early 1950’s. As a result thereof, the groundwater resources of the City Water Utility System were subject to long-term overdraft, *i.e.*, the depletion of the water table was greater than the replenishment, of an average of 3,000 acre-feet per year. With the introduction of surface water from the Domestic Water Project, this long-term overdraft was halted, and the City’s dependency upon groundwater was reduced. The City expects that the expansion of the Domestic Water Project and the installation of the various capital projects associated therewith will further reduce its reliance on groundwater supplies.

Water Quality

Land use in the vicinity of the City is a mixture of rural, residential, agricultural, commercial and industrial uses. Potential sanitary hazards include the percolation of agricultural chemicals and fertilizers in adjacent fields and underground storage of fuels in single contained tanks. All wells are adequately located away from sewer lines and sewage disposal facilities. Aboveground on-site fuel storage tanks are or will be provided with a containment system.

Historically, the overall well system has not required major treatment facilities to deliver potable water supplies to date. However, over the past ten years, the number of natural and man-made contaminants which the City is required to monitor has increased from 22 to 98 and there have been significant changes in the maximum contaminant levels permitted under regulations adopted by federal and State regulatory agencies. As a result, concerns over water quality have necessitated the closure of wells with poor water quality and has led to the requirement for treatment of several groundwater wells. The City has commenced litigation to protect, and/or to recover damages to, its groundwater supplies. See “– DBCP Settlement Agreement” and “– PCE Litigation” below.

The operation of the wells is performed automatically in response to system pressure and reservoir water level. All wells are monitored in accordance with State water quality monitoring

regulations. Samples are collected for general physical, general mineral, inorganic chemical, radioactivity and organic chemical analysis. Additional monitoring is conducted for bacteriological and general mineral analysis on a routine basis. Bacteriological quality of the groundwater sources is generally good. Follow-up samples on positive total coliform test results are generally negative.

In addition to water wells as a domestic supply source, the City manages approximately 9,500 rock wells for the drainage of stormwater. Stormwater runoff occurs when rainfall intensity exceeds the infiltration rate of the soil. Suspended solids, heavy metals, and oil and grease are the major types of pollutants conveyed by runoff water to drainage facilities. The pollutant loading in runoff typically increases with increased urbanization. About 70 percent of the City service area employs rock wells which vary in depth from 25 to 50 feet. As a precaution to any risk of pollutants from stormwater and other wastewater entering the rock wells and percolating into the usable groundwater aquifer, the City seals its water wells at appropriate depths in relation to rock wells. After 40 years of operation of rock wells, no pollutants attributable to urban drainage have been detected in the drinking water supply. Recent studies of the federal Environmental Protection Agency conclude that properly operated rock wells provide significant treatment and removal of pollutants from percolating water.

DBCP Settlement Agreement

In January 1997, the City reached a settlement in litigation with certain defendants who are the manufacturers and distributors of dibromochloropropane (“DBCP”), which was impacting the drinking water quality throughout the combined City and former Del Este water systems. The settlement agreement (the “Settlement Agreement”) compensated the City for past expenses related to complying with drinking water standards and providing well-head treatment. The Settlement Agreement and the damage recovery covers the City’s entire current and projected service area over the 40 years following the execution of the Settlement Agreement. The Settlement Agreement provides a formula by which the majority of future capital and operating expenses for DBCP mitigation will be compensated by the defendants. The Settlement Agreement includes cost escalation indexes and requires that these payments be used in the area where the damage occurs, as a protection for the defendants against possible Del Este ratepayer actions. The Settlement Agreement puts a variety of operating obligations on the City to ensure that the contamination is managed economically and in compliance with applicable regulations.

The annual proceeds from the Settlement Agreement are included in the Historical Operating Results and the anticipated annual proceeds are included in the Projected Operating Results of the City Water Utility System described below. For operating costs, the City receives a specified amount for each well which is receiving well head treatment for DBCP, escalated annually by the Producer Price Index (“PPI”). For each additional or new well requiring GAC equipment, 90% of the capital costs, escalated by the PPI, will be compensated. The actual amount will depend on the type of GAC unit needed for the specific well. The process for compensation provides that the City file an annual claim with the trustee for operation and maintenance and capital costs for the preceding year. The defendants are required to maintain a certain balance in the trustee account, the balance declining over the 40-year life of the Settlement Agreement. The City is responsible for any difference between actual operating and capital expense and the stipulated compensation formula. Any shortfall would then be covered by the City through appropriate action, including without limitation a rate adjustment to assure compliance with the covenants in the Settlement Agreement.

Water supplied to customers by the City has and continues to meet all federal and State requirements for quality standards. The City has in place a program to monitor and evaluate proposed regulatory water quality standards. The City anticipates that it will be able to meet increasingly stringent water standards.

PCE Litigation

The City of Modesto Redevelopment Agency (now the City of Modesto, as successor agency) brought an action in 1998 against numerous defendants, alleging causes of action for strict liability, negligence, negligence per se, continuing trespass, private and public nuisance, private and public nuisance per se, response costs and declaratory relief under the Carpenter-Presley-Tanner Hazardous Substance Account Act (Health & Safety Code Section 25300 *et seq.*), ultra hazardous activity, and cost recovery under the Polanco Redevelopment Act (Health & Safety Code Section 33459 *et seq.*) (San Francisco County Superior Court Case No. 999345). Simultaneously with the filing of that action, the City, along with the City of Modesto Sewer District No. 1, brought another action against a nearly identical group of defendants seeking damages for solvent contamination under many of the same legal theories; but this action did not include a Polanco Redevelopment Act cause of action (San Francisco County Superior Court Case No. 999643). The defendants included chlorinated solvent manufacturers, distributors of solvents and dry cleaning equipment, chlorinated solvent equipment manufacturers, and dry cleaning retailers.

The complaints alleged that two cleaning solvents, perchloroethylene (“PERC” or “PCE”) and trichloroethylene, cause risks to health and the environment, that dry cleaners customarily dumped solvent wastewater into the public sewer systems, and that dry cleaners experienced a habitual problem of chlorinated solvents leaking into the environment. According to the complaints, the defendants who manufactured and supplied solvents and equipment instructed dry cleaners that chlorinated solvents could be discharged into sewers and/or failed to issue recalls or warnings regarding the equipment and solvents.

The plaintiffs tried five “bellweather” suits before a jury from February to June of 2006, and won a verdict for compensatory damages of \$3.1 million and a verdict for punitive damages of \$175 million, later lowered to \$12 million. In October of 2007, the plaintiffs reached an agreement with one of the defendants, Vulcan Materials Company (“Vulcan”), pursuant to which Vulcan agreed to pay the plaintiffs \$20 million to settle the actions pending against Vulcan. The City’s water system and its sewer system were each credited with half of the net amount of the settlement after payment of litigation fees and expenses and certain other costs (approximately \$6.5 million each), but the money may be expended only for projects that will remediate PCE. Trials against the remaining defendants have occurred. Plaintiffs were awarded compensatory damages (which were offset by prior settlements which were adjudged to operate as credits against the damages), as well as certain punitive damages. Plaintiffs, defendants and cross-defendants in these actions have appealed the judgment. The City is unable to predict the outcome of these appeals. The City has estimated its potential cost exposure, depending on the outcome of the pending appeals, could range from \$0 to approximately \$4.08 million.

Employees

The Public Works Director has primary responsibility for the management of the City Water Utility System, as well as for the sewer system, solid waste system, streets and storm drains. The City Water Utility System currently has 125 full-time employees. Employees are represented by the Modesto City Employees Association and by the Modesto Confidential and Management Association, each of whose current Memorandum of Understanding expires on September 23, 2013.

Retirement Programs

All permanent full time employees of the City are covered under the Public Employees’ Retirement System of the State of California (“PERS”), a defined benefit plan. PERS is an agent multiple employer public employee retirement program that acts as a common investment and administrative agent for participating entities in California. Pension costs are funded by monthly contributions from employees and from employer contributions by the City. Required contributions for the City during fiscal

year 2011-12 were \$13,183,647, of which \$976,844 was allocated to the City Water Utility System. Budgeted contributions for fiscal year 2012-13 were \$14,793,213, of which \$1,252,331 was allocated to the City Water Utility System. Budgeted contributions for fiscal year 2013-14 are \$11,784,396, of which \$859,595 is allocated to the City Water Utility System. The fiscal year 2013-14 PERS budgeted contributions are lower than in previous years due to the employees paying some or all of the employee contribution. The City-wide budgeted PERS and OPEB contributions for fiscal year 2013-14 represent 4% and 0.3%, respectively, of the City's fiscal year 2013-14 operating budget of \$289,378,344.

As of July 1, 2013, employee contributions for participants in the City's "Miscellaneous Plan" with PERS, which includes City Water Utility System employees, were 7% of annual covered salary. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The current rate is 12.781% of the annual covered payroll for Miscellaneous Plan employees and 32.91% for Safety Plan employees. The City Water Utility System does not contribute any money towards PERS for Safety Plan employees.

As of June 30, 2011 (the latest data available), the City's Entry Age Actuarial Accrued Liability for its PERS Miscellaneous Plan employees (which includes employees of the City Water Utility System) was \$343,774,527 and the actuarial value of plan assets was \$306,459,646, resulting in an Unfunded Actuarial Accrued Liability of \$37,314,881 and a funded ratio of 89.1%. The portion of the plan's assets allocable to the City Water Utility System employees, which is part of the City's liability pool, has not been separately calculated.

The California Public Employees' Pension Reform Act of 2012 ("PEPRA") enacted statewide pension reforms for state and local public retirement systems effective January 1, 2013. The impacts of the PEPRA primarily apply to employees first hired by a public agency or after January 1, 2013. Some of these provisions include certain limits on the amount and types of compensation that may be included by a retirement system in calculating pension benefits, the imposition of new formulas for the calculation of pension benefits for employees, certain requirements for the sharing of the costs of pension benefits by employees, and certain limitations on the adoption of new defined benefit plans. The PEPRA prohibits certain retroactive enhancements to pension benefit formulas for all employees, imposes certain limits on subsequent employment for retired employees, prohibits the purchase of non-qualified permissive service credit by all employees after January 1, 2013, and requires for any employee the forfeiture of pension and retirement-related benefits for certain felony convictions.

In addition to the pension benefit plan described above, the City also maintains a program providing "other post-employment benefits" ("OPEB") for its employees. The City's funding policy for the OPEB Plan is to fund benefits on a pay-as-you-go basis. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to pre-fund benefits as determined annually by the City Council. The City is currently funding approximately 25% of the current cost of annual benefits. The City has created an internal service fund to track the OPEB liability, annual expenses and revenues and has been disclosing its liability for OPEB in its Comprehensive Annual Financial Statements for more than 10 years. The City has set aside \$12,002,745 of Employee Benefits Management Internal Service Fund cash and investment to be used to fund its OPEB benefits. Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Since the City's Internal Service Fund does not meet this requirement, the assets have been excluded from the actuarial calculations. As of June 30, 2010 (the latest data available), the Entry Age Actuarial Accrued Liability for OPEB was \$104,399,231.

Additional information regarding the City’s retirement plans and other post-employment benefits can be found in the City’s comprehensive annual financial reports, which may be obtained at <http://www.ci.modesto.ca.us/fin/financials/>.

Insurance

The City is exposed to various risks of loss related to torts, damage to and loss of assets, errors and omissions, injuries to and illness of employees, and natural disasters. The City maintains an Insurance Internal Service Fund to account for and finance its risks of loss. Under this program, the City is self-insured for the following risks up to the maximum amount per claim shown: workers’ compensation - \$500,000; liability - \$1,000,000; and dental care - \$1,200. The City purchases commercial insurance for property loss, airport liability, and for claims in excess of the preceding self-insured coverage amounts. For liability claims the City is one of twelve members of the Authority for California Cities Excess Liability (ACCEL) risk pool. This pool covers City claims between \$1,000,000 and \$5,000,000. Commercial insurance covers claims over \$5,000,000 up to an additional \$35,000,000 per claim.

The City currently maintains insurance against damage to the City Water Utility System. Coverage thereunder is currently \$12,700,000, but damage resulting from earthquakes is not covered.

Service Area and Customers

The water service area of the City Water Utility System is within the metropolitan area of the City, located in the central portion of Stanislaus County, consisting of approximately 36 square miles, as well as the communities of Salida, Waterford, Empire, Hickman, Grayson, and portions of Turlock, Ceres and Del Rio Estates.

The following tables set forth the revenues for the periods indicated and the ten largest water customers of the City Water Utility System in terms of total water sales and total billings for the fiscal year ended June 30, 2012. During calendar year 2012, the City Water Utility System delivered approximately 21.76 billion gallons of water to an average of approximately 77,000 customers. Residential accounts (single family as well as multi-family accounts) represent approximately 92% of the City’s water consumption and water sales revenues. Commercial, industrial and municipal accounts represent approximately 8% of the City’s water consumption and water sales revenues. The City’s ten largest customers represented approximately 8.60% of total water sales revenues in fiscal year 2011-12.

**CITY WATER UTILITY SYSTEM
Sale of Water
(Fiscal Year Ended June 30)**

	2008	2009	2010	2011	2012
Revenues (\$000)					
Residential (Flat Rates) ⁽¹⁾	\$31,495	\$30,585	\$21,257	\$16,889	\$14,465
Residential, Commercial, Industrial (Metered)	17,890	20,445	28,758	33,190	37,163
Total ⁽²⁾	<u>\$49,385</u>	<u>\$51,031</u>	<u>\$50,015</u>	<u>\$50,079</u>	<u>\$51,628</u>

⁽¹⁾ The decline in residential flat rate revenues reflects the City’s transition to metered residential service. See “– Water Charges and Billing” below.

⁽²⁾ Totals may not add due to rounding.

Source: City of Modesto

**CITY WATER UTILITY SYSTEM
Ten Largest Customers
(Fiscal Year ended June 30, 2012)**

Customer	Business Type	Water Sales Revenues	% of Total Water Sales Revenues	Water Usage (ccf) ⁽¹⁾	% of Total Usage
Grover Landscaping ⁽²⁾	Landscaping	\$ 821,553	1.59%	439,042	1.51%
Modesto City Schools	Education	687,746	1.33	419,776	1.44
Signature Fruits Co. LLC	Cannery	576,841	1.12	421,718	1.45
Stanislaus Food Products	Cannery	535,620	1.04	381,935	1.31
Foster Farms	Dairy Processor	469,501	0.91	347,255	1.19
Stanislaus County Housing Authority	Government	307,522	0.60	178,618	0.61
E & J Gallo	Winery	302,684	0.59	206,891	0.71
Modesto Irrigation District	Public Agency	296,832	0.57	197,659	0.68
Stanislaus County Building Maintenance	County Offices	220,019	0.43	109,988	0.38
Yosemite Community College District	Education	213,886	0.41	131,126	0.45
Top Ten Total		\$ 4,432,204	8.60%	2,834,008	9.74%
Total Flat/Metered Revenues		\$51,627,550			

⁽¹⁾ "ccf" means hundred cubic feet.

⁽²⁾ Under contract for maintenance of City parks, the water charges incurred are passed on to the City of Modesto for reimbursement.

Source: City of Modesto

Water Charges and Billing

Water Service Rates. Water rates are fixed by the City Council and are not subject to regulation by the California Public Utility Commission ("CPUC") or any other State or federal agency. Customer service charges for residential accounts were historically generally based on a flat monthly service charge, which varied only based on the size of the lot and in which of three zones the lot was located. However, under a rate structure which went into effect on January 1, 2005, a uniform rate for each applicable lot size was established for all three zones. See "*Rate Setting Process*" below for a discussion of the process followed by the City in implementing such rate structure.

Historically, the City had not metered water use by its single family residential customers; however, since 1992 all new construction has been equipped with a meter; and those single family residential properties that are equipped with water meters that are read for billing purposes are charged the metered water rate. Pursuant to State legislation, the City will be required to install meters and to read and bill for water service based on metered rates by 2025. The City Council has adopted a metering plan schedule pursuant to which those requirements would be satisfied by 2022; and, in connection therewith, the City Council has approved contracts with Automatic Meter Reading in order to provide the most cost efficient and manner of implementing its plan. The City is approximately 75% complete with its metering plan.

Multifamily residential units are currently metered. Each commercial account pays a monthly service charge and a volume charge per hundred cubic feet ("ccf") of water delivered. All regular customers are liable for service charges unless service is permanently discontinued. In addition, all new regular water service connections, increases in meter sizes, and the connection of additional dwelling units to existing services require the payment of a connection fee.

As noted above, the City Council established a revised rate structure that went into effect on January 1, 2005. The revised rate structure established a single service area, combining all of its three prior water zones into a single zone. The current rates include a uniform volume-based charge reflecting the volume of water consumed. Residential metered and flat rates are designed so that monthly bills for these types of customers will be comparable where water consumption is estimated to be comparable. Residential flat rates are standardized by lot size (previously, the size ranges varied between water zones) based upon the number of parcels in each range and patterns of water use.

In addition to the revised rate structure, the City Council also approved a series of uniform rate increases of 20% effective July 1, 2005, 15% effective July 1, 2006, 5% effective July 1, 2007 and 5% effective July 1, 2008. On each subsequent July 1, commencing July 1, 2009 rates are have been and are authorized to be adjusted in the future to reflect increases in the Consumer Price Index (“CPI”).

The table below sets forth the adopted single-family residential flat rates approved for the five fiscal years through fiscal year 2013-14.

**CITY WATER UTILITY SYSTEM
Monthly Single Family Residential Flat Water Rates⁽¹⁾**

Lot Size	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013
0-5,000 sq. ft. lot	\$37.23	\$37.23	\$38.01	\$38.69	\$39.89	\$40.81
5,001-7,000 sq. ft. lot	42.31	42.31	43.20	43.98	45.34	46.38
7,001-11,000 sq. ft. lot	50.21	50.21	51.26	52.18	53.80	55.04
11,001-17,000 sq. ft. lot	53.30	53.30	54.42	55.40	57.12	58.43
Over 17,000 sq. ft. lot	62.66	62.66	63.98	65.13	67.15	68.69

⁽¹⁾ Single family residential properties with water meters that are read for billing purposes, are charged the metered water rate.
Source: City of Modesto.

The following table sets forth the adopted monthly service charge and volume charge for metered residential and commercial accounts through fiscal year 2013-14.

**CITY WATER UTILITY SYSTEM
Water Rates and Charges
Metered Residential and Commercial Accounts**

	Effective July 1, 2009	Effective July 1, 2010	Effective November 1, 2010	Effective July 1, 2011	Effective July 1, 2012	Effective July 1, 2013
Volume-based Rate (\$/hcf)	\$ 1.28	\$ 1.28	\$ 1.33	\$ 1.33	\$ 1.37	\$ 1.40
Fixed Monthly Meter Charge (in addition to volume-based charges)						
5/8" - 3/4" meter	13.71	13.71	14.00	14.25	14.69	15.03
1" meter	19.45	19.45	19.86	20.22	20.85	21.33
1-1/2" meter	33.66	33.66	34.37	34.99	36.07	36.90
2" meter	50.79	50.79	51.86	52.79	54.43	55.68
3" meter	96.51	96.51	98.54	100.31	103.42	105.80
4" meter	147.88	147.88	150.99	153.71	158.48	162.13
6" meter	290.51	290.51	296.61	301.95	311.31	318.47
8" meter	461.75	461.75	471.45	479.94	494.82	506.20
10" meter	661.58	661.58	675.47	687.63	708.95	725.26
12" meter	1,232.31	1,232.31	1,258.19	1,280.84	1,320.55	1,350.92

Source: City of Modesto.

The City water rates set forth in the two preceding tables reflect rate adjustments based upon increase in the CPI as set forth below.

**CITY WATER UTILITY SYSTEM
Water Rates and Charges
Historical Rate Increases**

<u>Effective Date</u>	<u>CPI Rate Increase</u>
November 1, 2010	2.1%
July 1, 2011	1.8
July 1, 2012	3.1
July 1, 2013	2.3

Source: City of Modesto.

The following table sets forth connection fees for all users except multi-family units by meter size for fiscal year 2013-14.

**CITY WATER UTILITY SYSTEM
Connection Fees for All Users
Except Multiple Family Units
(Fiscal Year 2013-14)**

<u>Meter Size</u>	<u>Connection Fees</u>
5/8"	\$ 2,175
1"	5,436
1-1/2"	10,873
2"	17,395
3"	34,789
4"	54,359
6"	108,717
8"	173,947
10"	250,049
12" or larger	467,482

Source: City of Modesto.

Comparison of Rates and Charges. The following table lists certain water suppliers in the Modesto region and their average monthly residential water service charges.

**CITY WATER UTILITY SYSTEM
Comparison of
Average Monthly Water Rates
Flat Rate (1" Service)
As of June 30, 2012⁽¹⁾**

City	Flat Rate Typical Home
Modesto	\$43.98
Stockton	67.30
Tracy	56.65
Turlock	31.50
Lodi	41.99
Fresno	22.57

⁽¹⁾ Most current information readily available to the City. Modesto rate reflects fiscal year 2011-12 rates.
Source: City of Modesto.

The City's water rates reflect the steps the City has taken to assure a long-term water supply by entering into the regional water management partnership with the District. The rates of the other nearby cities reflect the particular circumstances of each city's water system, such as the degree to which it relies on groundwater or surface water. The rates also reflect their specific circumstances with regard to the cost of current and prospective water supplies.

Rate Setting Process. In connection with its consideration of the revised water rate structure which took effect on January 1, 2005, the City Council followed a process which it believes satisfies the requirements of Article XIID of the California Constitution. See “– Certain Limitations on City Imposition of City Water Utility System Fees and Charges” below. Specifically, by October 8, 2004, nearly 75,000 notices of the proposed increase in water rates had been mailed to the owners of record of the parcels within the City's water service area. The notices advised property owners of their right to file written protests to the proposed increase and of a public hearing, set for November 23, 2004, at which such protests would be considered. The number of protests received prior to the completion of the November 23, 2004 public hearing was 8,856, far less than the majority required in order to prevent the implementation of the proposed rate increase. Following the completion of the public hearing, the City Council proceeded to adopt the rate increase as described above. See “– *Water Service Rates*” above.

Challenges to Rates. The 2005-2006 Stanislaus County Civil Grand Jury received complaints from Del Rio, an outlying community that receives its water from the City's Water Utility System. Del Rio is a wealthy area which includes homes on large lots that had previously received flat rate water. Part of the City's revised rate structure (see “– *Water Service Rates*” above) required metering rates for Del Rio, which had the effect of accentuating the accompanying rate hikes. However, the Civil Grand Jury found no evidence to support Del Rio's contention that the City's Proposition 218 notice informing the public of the revised rate schedule was inadequate. Del Rio also charged that the City's water rate policy violated a Proposition 218 requirement that a parcel be charged only its proportional costs. The Civil Grand Jury concluded there is no difference in the rate structure between Del Rio and the rest of the City's water customers that are billed a metered rate; and the Civil Grand Jury made no recommendation regarding the proportionality issues. Del Rio further charged that there was a misuse of funds by using water collections for purposes other than water. While it did make study recommendations, the Civil Grand Jury ultimately determined that the City is accounting for water costs and revenues separately from non-water related accounts. Del Rio's last charge was that unfairness in the rate process led to Del Rio paying more than other water customers. The Civil Grand Jury could not substantiate this charge, but rather made study recommendations regarding actual customer costs between metered and flat rates, and a

further recommendation that conversion from flat to metered rates occur as quickly as possible. The City is continuing its city-wide meter installation program that was begun several years ago with the intent of having every service location on a metered billing by the year 2022.

Delinquencies

The City's municipal water department has historically accounted for water system revenues on a full accrual basis. The City has developed procedures for handling delinquent accounts. There has not generally been a significant delinquency problem. The threatened suspension of water delivery is normally sufficient incentive to induce customers to make payment on their billings. In addition, the City customers may have tax liens placed on their property when water bills are delinquent. Uncollectible accounts have historically been less than 1% of revenues and remain at that level. The City staff monitored delinquencies closely during the recent period of high foreclosures. Liens have been filed against many delinquent properties to provide greater leverage in the recovery and collection process.

Outstanding Long-Term Obligations

As of June 30, 2013, the City had outstanding \$45.86 million aggregate principal amount of 2008 City Certificates evidencing and representing the interests of the owners thereof in installment payments to be made by the City under the Master Contract for the purpose of financing certain improvements to the City Water Utility System. In connection with the 2008 City Certificates, which are variable rate certificates of participation, the City has entered into the 2008 City Swap Agreement, as well as a reimbursement agreement with a bank to provide credit and liquidity support in the form of a letter of credit for such variable rate certificates of participation. The City's obligations under the 2008 City Swap Agreement to make scheduled payments and certain termination payments (but only if such termination payments are insured pursuant to the Swap Policy), as well as the City's obligation to make payments under the related insurance and reimbursement agreements if any amounts which have drawn thereunder have not been reimbursed by the City, are payable on a parity with the City's obligations to make installment payments relating to the 2008 City Certificates, to make Debt Service Payments under the Treatment and Delivery Agreement relating to the outstanding Series 2007 Water Bonds (including regularly scheduled payments due under the Domestic Water Swap Agreement) and the Series 2013 Water Bonds, and to make payments with respect to the other City Parity Obligations described herein. The City's obligations to make termination payments under the 2008 City Swap Agreement which are not insured and its obligations to pay amounts under the Treatment and Delivery Agreement relating to termination payments due under the Domestic Water Swap Agreement are payable on a subordinate basis.

As of June 30, 2013, the City also had outstanding three long-term loans payable from City Gross Water Revenues: (i) the CDWR Loan in the outstanding principal amount of \$631,373, (ii) the ARRA Water Grant, the maximum loan amount under which is \$800,000, of which 50% or an estimated \$400,000 will not need to be repaid as described herein, and (iii) the MID Advance in the aggregate outstanding principal amount of \$3,434,339 to be repaid with interest in annual installments, with the final installment due no later than July 31, 2014. The CDWR Loan and the ARRA Water Grant constitute City Parity Obligations payable on a parity with the City's obligations to make installment payments relating to the 2008 City Certificates, to make Debt Service Payments under the Treatment and Delivery Agreement relating to the outstanding Series 2007 Water Bonds (including regularly scheduled payments due under the Domestic Water Swap Agreement) and the Series 2013 Water Bonds, and to make payments with respect to the other City Parity Obligations described herein. The Memorandum of Understanding relating to the advance from the District is silent with respect to the payment priority of the City's obligations thereunder. The MID Advance is being repaid as an operating expense of the City Water Utility System (consistent with other payments under the Treatment and Delivery Agreement not constituting Debt Service).

See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Additional Encumbrances of City Gross Water Revenues.*”

Historical Operating Results

The following table summarizes operating revenues, operating expenses and net income of the City Water Utility System for the five fiscal years 2007-08 through 2011-2012. The information for the four fiscal years ended June 30, 2012 was prepared by the City on the basis of its audited financial statements.

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CITY WATER UTILITY SYSTEM
Historical Debt Service Coverage⁽¹⁾

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
GROSS OPERATING REVENUES					
Charges for services	\$52,927,134	\$52,990,138	\$51,572,801	\$51,876,505	\$53,453,708
Connection charges	1,943,456	1,113,082	647,579	452,021	516,839
Refunds, Damages & Recoveries	232,570	29,033	428,083	460,766	166,522
Interest and Rental Income	1,984,517	2,055,531	1,006,611	588,917	670,046
Draw from (Deposit to) Rate Stabilization Fund	--	--	--	--	--
Service Credits ⁽²⁾	604,082	501,671	2,170,367	2,562,986	2,966,465
Miscellaneous	13,190	32,586	25,782	58,083	118,203
TOTAL GROSS OPERATING REVENUES	\$57,704,949	\$56,722,041	\$55,851,223	\$55,999,278	\$57,891,783
OPERATING EXPENSES:					
Total operating expenses ⁽³⁾	\$23,664,217	\$28,359,392	\$30,219,002	\$26,638,348	\$30,755,822
Operating transfers	65,000	482,503	765,000	776,000	1,257,406
CIP expenses moved to operating ⁽⁴⁾	2,156,833	3,054,407	1,127,185	--	--
TOTAL OPERATING EXPENSES	\$25,886,050	\$31,896,302	\$32,111,187	\$27,414,348	\$32,013,228
NET OPERATING REVENUES	\$31,818,899	\$24,825,739	\$23,740,036	\$28,584,930	\$25,878,555
TOTAL DEBT SERVICE:					
Revenue obligations:					
1997 Certificates of Participation ⁽⁸⁾	\$ 1,791,930	\$ 1,792,258	\$ 1,794,688	\$ 1,797,013	--
2006 Certificates of Participation ⁽⁹⁾	1,982,256	--	--	--	--
2008 Certificates of Participation ⁽⁹⁾	--	2,262,117	2,145,966	2,271,034	\$ 2,684,462
Treatment & Delivery Agreement Debt Service ⁽¹⁰⁾	6,681,894	6,672,406	7,455,918	10,794,041	10,888,790
CDWR Loan	264,719	263,079	264,719	264,719	255,942
ARRA Grant	--	--	--	--	5,137
TOTAL DEBT SERVICE	\$10,720,799	\$10,989,860	\$11,661,291	\$15,126,807	\$13,834,331
DEBT SERVICE COVERAGE					
(Net Operating Revenues/Total Debt Service)	2.97	2.26	2.04	1.89	1.87

(1) Calculated in conformity with the legal documents pursuant to which the City's outstanding long-term obligations have been issued.

(2) Service credits are reimbursements from other City funds of costs associated with employee time worked on other projects. In Fiscal Year 2010, Cashiering, Utilities and Collections division which was previously accounted for in the City General Fund was moved into the Water Fund. This caused a structural change and an increase in service credits.

(3) Beginning in Fiscal Year 2009, total operating expenses increased as a result of the initiation of a meter program and increases in costs associated with supplies, maintenance, water treatment litigation and administration. Includes Treatment and Delivery Agreement costs other than Debt Service.

(4) Operating transfers in Fiscal Year 2009 increased due to an administrative oversight and funds were returned to the correct fund.

(5) Includes operating transfers for building rental fee of \$65,0000 annually and commencing with Fiscal Year 2010, \$700,000 annual transfer to the Storm Drain Fund to actively protect the groundwater supply source from contamination. In Fiscal Year 2012, includes a one-time \$668,610 transfer for IT ISF for the Water Fund's one time contribution to the City's new financial system.

(6) In Fiscal Year 2010, the City made a prior period adjustment to reclassify certain operating costs previously recorded as capital improvements. The prior period adjustment has been reflected in this table in the years costs were incurred.

(7) Total operating expenses excludes deprivation and amortization, as well as the debt service component under the Treatment and Delivery Agreement.

(8) 1997 Certificates of Participation were prepaid in full in Fiscal Year 2011.

(9) 2006 Certificates of Participation were refunded in full by the 2008 City Certificates.

(10) Debt service payment increased by \$4.1 million in Fiscal Year 2011 due to end of capitalized interest.

Source: City of Modesto.

City Water Utility System Financial Management Policies

The City has detailed financial management policies that include guidelines for debt, capital planning, investments, debt service coverage and formal reserves. It is the current policy of the City to maintain working capital reserves equal to 90 days of operation and maintenance expenses of the City Water Utility System. It is also the current policy of the City to seek to maintain a debt service coverage ratio of 1.5 times on its outstanding long-term obligations secured by a pledge of City Gross Water Revenues, including its obligations for the payment of Debt Service under the Treatment and Delivery Agreement and the other outstanding City Parity Obligations. The City Rate Covenant in the Treatment and Delivery Agreement requires a debt service coverage ratio of 1.25 times. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – City Rate Covenant.”

Capital Improvement Program

The capital improvement program of the City for the City Water Utility System for fiscal years 2013-14 through 2017-18 includes budgeted or planned programs and projects expected to be funded by the City from annual revenues. The City estimates its capital expenditures were approximately \$7.8 million in fiscal year 2012-13 for the planning, design and construction of 34 different capital improvement projects for the City Water Utility System. These projects included a variety of new and replacement water infrastructure items, including tanks, pump stations, wells, wellhead treatment improvements and pipelines.

Planned future projects include new wells, wellhead treatment, storage tanks, booster pumps, water main extensions and pump replacements. Total capital expenditures for fiscal years 2013-14 through 2017-18 are estimated to be approximately \$80.6 million.

The City’s capital improvement program is a 10-year plan revised annually. Consequently, projects planned for future years may be cancelled, and new projects not presently anticipated may be undertaken. To the extent that total funds required exceed cash available, the City expects that the projects will either be funded by bond proceeds or deferred or terminated.

Summary of Projected Operating Results of the City Water Utility System

The City has prepared the following table of projections of operating results of the City Water Utility System for the fiscal years ending June 30, 2013 through 2017. Projected operating results for the recently ended Fiscal Year 2013 are based upon budgeted numbers as actual data for the fiscal year is not yet available. The projected amounts for future years set forth below are based on certain assumptions made by the City reflected in the footnotes to the table. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary from those set forth herein.

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CITY WATER UTILITY SYSTEM
Projected Operating Results⁽¹⁾

	Fiscal Year 2013 ⁽⁸⁾	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
GROSS OPERATING REVENUES						
Charges for services ⁽²⁾	\$54,810,773	\$56,071,420	\$57,192,849	\$58,336,706	\$59,503,440	\$60,693,509
Connection charges	331,001	331,001	331,001	331,001	331,001	331,000
Refunds, Damages & Recoveries	--	5,000	--	--	--	--
Interest and Rental Income	421,266	299,560	225,110	174,307	174,973	175,652
Draw from (Deposit to) Rate Stabilization Fund	--	--	--	--	--	--
Service credits	2,980,463	2,124,471	2,124,471	2,145,716	2,167,173	2,188,845
Miscellaneous	110,461	112,670	114,924	117,222	119,567	121,958
GF (Parks Loan) P/I ⁽³⁾	53,500	53,000	52,500	52,000	52,000	52,000
TOTAL GROSS OPERATING REVENUES	\$58,707,464	\$58,997,122	\$60,040,854	\$61,156,950	\$62,348,152	\$63,562,964
OPERATING EXPENSES:						
Total operating expenses ⁽⁴⁾	\$37,342,820	\$36,851,408	\$36,777,041	\$38,056,723	\$39,564,392	\$41,132,367
Operating Transfers	765,000	765,000	765,000	765,000	765,000	765,000
TOTAL OPERATING EXPENSES⁽⁵⁾	\$38,107,820	\$37,616,408	\$37,542,041	\$38,821,723	\$40,329,392	\$41,897,367
NET OPERATING REVENUES	\$20,599,644	\$21,380,714	\$22,498,813	\$22,335,228	\$22,018,760	\$21,665,597
TOTAL DEBT SERVICE:						
Revenue obligations:						
2008 Certificates of Participation ⁽⁶⁾ Treatment & Delivery Agreement Debt Service ⁽⁷⁾	\$ 2,632,225	\$ 2,619,139	\$ 2,835,077	\$ 2,835,077	\$ 2,835,077	\$ 2,835,077
CDWR Loan	10,789,791	10,788,307	10,778,701	10,767,819	10,768,184	10,759,434
ARRA Grant	264,719	264,719	264,719	264,719	132,359	--
	36,289	36,289	36,289	36,289	36,289	36,289
TOTAL DEBT SERVICE	\$13,723,024	\$13,698,454	\$13,914,786	\$13,903,904	\$13,771,909	\$13,630,800
DEBT SERVICE COVERAGE						
(Net Operating Revenues/Total Debt Service)	1.50	1.56	1.62	1.61	1.60	1.59

⁽¹⁾ Totals may not add due to rounding. Calculated in conformity with the legal documents pursuant to which the City's outstanding long-term obligations have been issued.

⁽²⁾ Revenues include a Consumer Price Index (CPI) increase in 2013 of 3.1% and of 2.3% in 2014. Assumes a 2% annual CPI increase not yet approved in Fiscal Years 2015 through 2018.

⁽³⁾ The Water Fund made a \$350,000 loan to the Parks department for the purpose of installing water wells in parks for landscape maintenance. The loan will be repaid over 7 years at 1% interest with the final payment due on July 1, 2018.

⁽⁴⁾ Operating expenses for Fiscal Year 2014 are based on the budget adopted on June 25, 2013 and assume inflationary rate of 2% in Fiscal Years 2015 through 2018. Includes Treatment and Delivery Agreement costs other than Debt Service.

⁽⁵⁾ Total operating expenses excludes depreciation and amortization, as well as Debt Service component under the Treatment and Delivery Agreement.

⁽⁶⁾ Assumes interest rate equal to the fixed rate applicable to the scheduled payments to be made by the City under the 2008 Swap Agreement. Include certain ongoing expenses.

⁽⁷⁾ Does not reflect expected debt service savings resulting from the issuance of the Series 2013 Water Bonds.

⁽⁸⁾ Based on budgeted numbers; Fiscal Year 2013 actual data not yet available.

Source: City of Modesto.

Certain Limitations on City Imposition of City Water Utility System Fees and Charges

Proposition 218

General. An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIID. Article XIID defines the terms “fee” and “charge” to mean “any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property related service” is defined as “a public service having a direct relationship to property ownership.” Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In *Richmond et al. v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) the California Supreme Court ruled that water connection fees are not property related fees or charges subject to Article XIID while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. On July 24, 2006, in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006), in what is technically dicta, the California Supreme Court cited its decision in *Richmond, supra* in support of its conclusion that a public water agency’s charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Despite the fact that the statement is *dicta*, it does represent the unanimous view of the California Supreme Court. The City believes that it has complied with the requirements of Article XIID, as said article has been construed by the California Supreme Court, in establishing its current rate structure for water service provided by the City Water Utility System.

In addition, Article XIID includes a number of limitations applicable to pre-existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property related fees or charges based on potential or future use of a service are not permitted. It is unclear whether, under the foregoing standards, fees and charges may be established at levels that permit deposits to a rate stabilization fund or maintenance of uncommitted cash reserves.

Article XIIC. Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local

governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge.” However, in *dicta* in its decision in *Bighorn-Desert View Water Agency, supra*, the California Supreme Court concluded that a public water agency’s charges for ongoing water delivery (which, as noted above, it had concluded were fees and charges within the meaning of Article XIID) are also fees within the meaning of Article XIIC and are therefore subject to initiative measures. However, the Court did note that, in doing so:

... [W]e are not holding that the authorized initiative power is free of all limitations. In particular, we are not determining whether the electorate’s initiative power is subject to the statutory provision [applicable to Bighorn-Desert View Water Agency] requiring that water service charges be set at a level that “will pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.” ... That issue is not currently before us.

Again, while the court’s conclusion set forth above is *dicta*, it does represent the unanimous view of the justices.

While the City does not believe that Article XIIC grants to the voters within the City the power to repeal or reduce rates and charges for water service provided by the City Water Utility System in a manner which would impair its ability to meet its contractual obligations under the Treatment and Delivery Agreement, there can be no assurance as to the availability of particular remedies adequate to protect the beneficial owners of the Series 2013 Water Bonds.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26, which amended article XIIC of the State Constitution by expanding the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, for performing investigations, inspections, and audits, for enforcing agricultural marketing orders, and for the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax; that the amount is no more than necessary to cover the reasonable costs of the governmental activity; and that the manner in which those costs are allocated to a payor bears a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. As of the date of this Official Statement, the City is unaware of any fees relating to the City Water Utility System that would have to be reduced or eliminated because of Proposition 26.

Effect of Propositions 218 and 26 and Other Initiatives

The ability of the City to comply with its covenants under the Treatment and Delivery Agreement and to generate City Gross Water Revenues sufficient to make Payments under the Treatment and Delivery Agreement to enable the District to make payment of the Series 2013 Installment Payments may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIIC or Article XIID by voters, property owners, taxpayers or payers of assessments, fees and charges. Proposition 218 and Proposition 26 were adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the City's Gross Water Revenues or ability to increase revenues. Neither the nature and impact of any such future measures nor the likelihood of qualification for ballot or passage can be anticipated by the City.

Investment Policy

Funds of the City, including cash attributable to the City Water Utility System, is required to be invested in accordance with the City's Investment Policy, adopted by the City Council during 1984 and most recently revised in 2012. In accordance with Sections 53601 and following of the California Government Code, idle cash management and investment transactions are the responsibility of the City Finance Director/Treasurer and permitted investments include the following:

- Securities of the U.S. Government, or its agencies,
- Certificates of deposit (or time deposits) and negotiable certificates of deposit placed with commercial banks,
- Banker's acceptances,
- Commercial paper of "prime" quality,
- Local Agency Investment Fund (State Pool) Demand Deposits, and
- Repurchase agreements.

Criteria for selecting investments and the order of priority are:

- Safety of Principal - Preservation of principal and interest,
- Liquidity - Ability to readily convert investment to cash at any moment in time, and
- Yield - Potential dollar earnings on an investment.

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield when selecting an investment, provided the criteria for safety and liquidity are met.

Audited Financial Statements

The City's annual financial report is audited in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly, in all material respects, the financial position of the City. The reports include certain notes to the financial statements. Such notes constitute an integral part of the audited financial statements. The annual financial reports of the City have received the Government Finance Officers Association Certificate of Achievement for each of the past 28 years.

The basic financial statements of the City as of June 30, 2012, which are incorporated by reference in and portions of which are included in APPENDIX B to this Official Statement, have been audited by Brown Armstrong Accountancy Corporation (the "Auditor"), independent certified public

accountants, as set forth in their report. In connection with the incorporation of the financial statements and the report of the Auditor thereon in APPENDIX B to this Official Statement, the City did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement; and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report. The Auditor has not been engaged to perform, and has not performed, since the date of its report included herein any procedures on the financial statements addressed in that report.

CERTAIN RISK FACTORS

The Series 2013 Water Bonds are payable solely from the Revenues pledged therefor under the Trust Agreement, consisting primarily of the Series 2013 Installment Payments made by the District and received by the Authority pursuant to the Installment Purchase Contract. The Series 2013 Installment Payments to be made by the District under the Installment Purchase Contract are payable solely from Treatment and Delivery Revenues received by the District from the City pursuant to the Treatment and Delivery Agreement, unless the District elects to appropriate monies to pay such obligations. The payment of debt service on the Series 2013 Bonds is therefor primarily dependent upon the receipt by the District of Payments from the City under the Treatment and Delivery Agreement. Some of the factors which could impair the ability of the City to pay the Payments as they become due under the Treatment and Delivery Agreement or which could otherwise result in a reduction in Treatment and Delivery Revenues received by the District or the availability of Revenues pledged under the Trust Agreement sufficient to make payment on the Series 2013 Water Bonds when due are summarized below. This discussion is not meant to be an exhaustive list of the risks associated with the purchase of the Series 2013 Water Bonds and does not necessarily reflect the relative importance of the various factors discussed. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Series 2013 Water Bonds. There can be no assurance that other risk factors will not become material in the future.

Risks Relating to City Gross Water Revenues

General. The City's obligation to make Payments to the District under the Treatment and Delivery Agreement is secured solely by a pledge of the City Gross Water Revenues on a parity with the other City Parity Obligations. The realization of City Gross Water Revenues sufficient in amount to meet all of the City's obligations payable therefrom is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water service to its users, and the ability of the City to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for maintenance and operation costs of the City Water Utility System. In addition, among other matters, drought, general and local economic conditions, changes in law and government regulations (including initiatives and moratoriums on growth) and unanticipated expenses or significant capital outlay requirements beyond that contemplated by the City's capital improvement program (including in connection with the completion of the Phase Two Expansion project) could adversely affect the amount of City Gross Water Revenues realized by the City or the demands on such City Gross Water Revenues.

Water Supply. There can be no assurance that the supply of water available to the City to meet potential system-wide demand of the City Water Utility System will be consistent with the assumptions described in this Official Statement. Adequacy of supply could be adversely affected by factors such as prolonged drought or increases in water quality standards which restrict the ability of the City to use existing groundwater supplies to meet demand. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Water Quality." While the Phase Two Expansion of the Domestic Water Project and other improvements undertaken and to be undertaken by the City to the City Water Utility System are intended to reduce the City's dependence upon groundwater supplies, there is no assurance that Phase

Two Expansion or any of such other improvements will be completed, will be able to treat and deliver the quantity of water initially expected or that they will be completed within a time frame and at a cost consistent with the various projections set forth in this Official Statement.

In addition to the potential problems of insufficient water to meet system wide demand discussed above, it is possible that the supply of water to meet the demands of particular portions of the City's water service area will be inadequate for such purposes. Some portions of the service area lack the wells necessary to supply them with groundwater, and other portions lack the infrastructure which would be required in order to deliver water from other portions of the service area.

Demand for Water. There can be no assurance that the demand for water service from the City Municipal Water System will occur as described in this Official Statement. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM." Not only is it possible that future increases in demand for water service will not occur at the rate described herein, it is also possible that current levels of demand could be reduced. A reduction in the level of demand could require an increase in rates or charges in order for the City to comply with its rate covenant under the Treatment and Delivery Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *City Rate Covenant.*"

City Water Utility System Expenses. There can be no assurance that the maintenance and operation costs of the City Water Utility System will be consistent with the projections set forth in this Official Statement. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Summary of Projected Operating Results of the City Water Utility System." Depending on the option ultimately pursued by the City and the District, if any, in providing for completion of the Phase Two Expansion project, operating costs of such Phase Two Expansion may be higher than currently assumed. Increases in such operating costs of the Phase Two Expansion project or in other maintenance and operation costs of the City Water Utility System could require a significant increase in rates or charges by the City in order to pay for existing and future improvements to the City Water Utility System and comply with its City Rate Covenant under the Treatment and Delivery Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *City Rate Covenant.*"

Rate Process. The passage of Proposition 218 by the California electorate affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM — Certain Limitations on City Imposition of City Water Utility System Fees and Charges."

Risk of Excused Performance under the Treatment and Delivery Agreement

Under certain limited conditions arising from significant damage to or destruction of the Domestic Water Project, a material reduction in the District's total annual water supply for physical reasons other than drought or the failure by the District to deliver a significant portion of the contracted water supply to the City for a reason other than drought, all as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *Limited Take-or-Pay Obligation,*" as a result of which the District shall be unable or shall fail to or shall not be required to provide at least a specified level of treated water to the City pursuant to the Treatment and Delivery Agreement for an extended period of time, the City shall be excused from its obligation to pay Debt Service or fixed costs under the Treatment and Delivery Agreement. In the event of a suspension of the City's obligations to make such payments under the Treatment and Delivery Agreement for an extended period of time, Treatment and Delivery Revenues received by the District under the Installment Purchase Contract would not be sufficient to make the

Series 2013 Installment Payments and, upon the depletion of amounts available in the Series 2013 Debt Service Reserve Fund for such payment, there may not be sufficient Revenues under the Trust Agreement to make payments of principal of and interest on the Series 2013 Water Bonds when due. Although the District has covenanted under the Installment Purchase Contract, that in the event Treatment and Delivery Revenues are insufficient to pay in full any amount then due and payable with respect to the Series 2013 Water Bonds, an Authorized District Representative shall submit to the Board of Directors of the District a special budget item requesting a special appropriation from the Board of Directors of the District of the amount of such insufficiency, the Board of Directors of the District shall have absolute discretion in determining whether such a special appropriation shall be made, and a determination not to make a special appropriation shall not in and of itself constitute an Event of Default under the Installment Purchase Contract. In the event of such insufficiency of Treatment and Delivery Revenues and a decision by the Board of Directors of the District not to make such special appropriation to pay interest and principal on the Series 2013 Water Bonds, there are no other amounts pledged to the payment of the Series 2013 Water Bonds.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could interrupt operation of the Domestic Water Project and/or the City Water Utility System and cause a loss or contamination of surface water supplies and/or groundwater supplies otherwise available to the City or increased costs thereby impairing the ability of the City to realize City Gross Water Revenues. A prolonged interruption of the operation of the Domestic Water Project could also result in the City being excused from performance of its obligation to make Debt Service Payments under the Treatment and Delivery Agreement (see “– Risk of Excused Performance under the Treatment and Delivery Agreement” above). While City currently maintains insurance against damages to its City Water Utility System in amounts up to \$10,000,000, damages resulting from earthquakes are not covered. Pursuant to the Installment Purchase Contract, the District is required to maintain insurance on the Domestic Water Project with responsible insurers in such amounts and against such risks (including accident to or destruction of the Domestic Water Project) as are usually covered in connection with domestic water systems similar to the Domestic Water Project so long as such insurance is available from reputable insurance companies at reasonable costs. The District does not currently maintain insurance for damages to the Domestic Water Project resulting from either floods or earthquakes.

Statutory and Regulatory Impact

Laws and regulations governing the treatment and delivery of water are enacted and promulgated by governmental agencies on the federal, state and local levels. Compliance with these laws and regulations may prove costly; and, as more stringent statutory and regulatory standards are developed to protect both the health of consumers and environment, these costs will likely continue to increase. No assurance can be given that the compliance with applicable laws and regulations will not materially adversely affect the costs or operations of the Domestic Water Project or the City Water Utility System.

Limitations on Remedies

The ability of the Authority, the District and the City to comply with their respective covenants and obligations under the Trust Agreement, the Installment Purchase Contract and the Treatment and Delivery Agreement so as to provide sufficient Revenues to the Authority to pay the principal of and interest on the Series 2013 Water Bonds may be adversely affected by actions and events outside of the control of the Authority, the District or the City. The owners of the Series 2013 Water Bonds have no rights under the Treatment and Delivery Agreement and cannot enforce the provisions thereof. Furthermore, any remedies available to the owners of the Series 2013 Water Bonds upon the occurrence of an event of default under the Trust Agreement are in many respects dependent upon judicial actions

which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition, in addition to the limitations on remedies contained in the Trust Agreement, the Installment Purchase Contract and the Treatment and Delivery Agreement, enforceability of the rights and remedies contained therein and the obligations of the Authority, the District and the City thereunder may become subject to the following: the federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. As described under “–Bankruptcy Risks” below, bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series 2013 Water Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Bankruptcy Risks

The City, the District, and the Authority are each authorized to file for under chapter 9 of the United States Bankruptcy Code under certain circumstances. Should the City, the District, or the Authority file for bankruptcy, there could be adverse effects on the Owners or beneficial owners of the Series 2013 Water Bonds.

If the City Gross Water Revenues are “special revenues” under the Bankruptcy Code, then City Gross Water Revenues collected after the date of a bankruptcy filing by the City should be subject to the lien of the Treatment and Delivery Agreement (subject to the risks of commingling discussed below). Similarly, if the Treatment and Delivery Revenues are “special revenues” under the Bankruptcy Code, then Treatment and Delivery Revenues collected after the date of a bankruptcy filing by the District should be subject to the lien of the Installment Purchase Contract (subject to the risks of commingling discussed below). “Special revenues” are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used or intended to be used primarily to provide utility services. Although the City Gross Water Revenues and the Treatment and Delivery Revenues appear to satisfy the definition of “special revenues” where the City or the District, respectively are in bankruptcy, no assurance can be given that a court would hold that the City Gross Water Revenues and/or Treatment and Delivery Revenues are special revenues subject to the lien of the Treatment and Delivery Agreement and the Installment Purchase Contract, respectively. The Authority’s revenues likely are not “special revenues” since the Authority does not own or operate the City’s Water Utility System or the Domestic Water Project.

If the City Gross Water Revenues are determined to not be “special revenues,” then City Gross Water Revenues collected after the commencement of a City bankruptcy case will likely not be subject to the lien of the Treatment and Delivery Agreement. The District may not be able to assert a claim against any property of the City other than the City Gross Water Revenues, and if these amounts are no longer subject to the lien of the Treatment and Delivery Agreement, then there may be no Treatment and Delivery Revenues available to the District for the payment of the Series 2013 Installment Payments. The Installment Purchase Contract provides that the District is not required to advance any moneys derived from any source of income other than the Treatment and Delivery Revenues and the funds provided under the Installment Purchase Contract for the payment of the Series 2013 Installment Payments, and therefore, there may be no Revenues under the Trust Agreement from which the Owners or beneficial owners of the Series 2013 Water Bonds are entitled to be paid. A similar result could occur in the event of a District bankruptcy filing if the Treatment and Delivery Revenues are determined to not be “special revenues” and Treatment and Delivery Revenues collected by the District after the commencement of the District

bankruptcy are not subject to the lien of the Installment Purchase Contract. A similar result could occur in the event of an Authority bankruptcy filing.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the related project or system before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, the City may be able to use City Gross Water Revenues to pay necessary operating expenses of the City Water Utility System or the District may be able to use Treatment and Delivery Revenues to pay necessary operating expenses of the Domestic Water Project before the remaining City Gross Water Revenues or Treatment and Delivery Revenues, as applicable, are made available to pay the Payments to be made by the City under the Treatment and Delivery Agreement or the Series 2013 Installment Payments to be made by the District under the Installment Purchase Contract which secure the payment of the Series 2013 Water Bonds. A similar result could occur in the event of an Authority bankruptcy filing. It is not clear which expenses would constitute necessary operating expenses.

If the City, the District, or the Authority is in bankruptcy, the parties (including the District (with respect to the obligations of the City), the Authority (with respect to the obligations of the District), the Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds, as applicable) may be prohibited from taking any action to collect any amount from the City, the District, or the Authority, or to enforce any obligation of the City, the District, or the Authority, as applicable, without the bankruptcy court's permission. This prohibition may also prevent the Trustee from making payments to the Owners or beneficial owners of the Series 2013 Water Bonds from funds in the Trustee's possession. The City Rate Covenant (see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS – The Treatment and Delivery Agreement – *City Rate Covenant*") or the District's rate covenant under the Installment Purchase Contract may not be enforceable in bankruptcy by the Trustee or the Owners or beneficial owners of the Series 2013 Water Bonds.

The City is permitted to commingle the City Gross Water Revenues with its own funds before applying the City Gross Water Revenues to make Payments when due under the Treatment and Delivery Agreement. If the City has any Gross Water Revenues in its possession when it files for bankruptcy and such Gross Water Revenues have been commingled with other moneys, then the District (and thus the Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds) may not have a lien on such moneys and the City may not be required to turn over such moneys to the District. If the City has possession of City Gross Water Revenues (whether collected before or after commencement of the bankruptcy) and if the City does not voluntarily turn over such City Gross Water Revenues to the District, it is not entirely clear what procedures the District would have to follow to attempt to obtain possession of such City Gross Water Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Similarly, the District is permitted to commingle the Treatment and Delivery Revenues with its own funds before applying the Treatment and Delivery Revenues to make the Series 2013 Installment Payments under the Installment Purchase Contract. If the District has any Treatment and Delivery Revenues in its possession when it files for bankruptcy and such Treatment and Delivery Revenues have been commingled with other moneys, then the Authority (and thus the Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds) may not have a lien on such moneys and the District may not be required to turn over such moneys to the Authority. If the District has possession of Treatment and Delivery Revenues (whether collected before or after commencement of the bankruptcy) and if the District does not voluntarily turn over such Treatment and Delivery Revenues to the Authority, it is not entirely clear what procedures the Authority would have to follow to attempt to obtain possession of such Treatment and Delivery Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Similar issues could arise in the event of the bankruptcy of the Authority. Under any of such circumstances, there may be delays or reductions in payments on the Series 2013 Water Bonds.

In the event of a City bankruptcy filing, the City may be able to borrow additional money that is secured by a lien on any of its property (including the City Gross Water Revenues), which lien could have priority over the lien of the Treatment and Delivery Agreement, as long as the bankruptcy court determines that the rights of the District under the Treatment and Delivery Agreement will be adequately protected. The City may be able to cause some of the City Gross Water Revenues to be released to it, free and clear of lien of the Treatment and Delivery Agreement, as long as the bankruptcy court determines that the rights of the District under the Treatment and Delivery Agreement will be adequately protected.

Similarly, in the event of a District bankruptcy filing, the District may be able to borrow additional money that is secured by a lien on any of its property (including the Treatment and Delivery Revenues), which lien could have priority over the lien of the Installment Purchase Contract, as long as the bankruptcy court determines that the rights of the Authority or the Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds under the Installment Purchase Contract and the Trust Agreement will be adequately protected. The District may be able to cause some of the Treatment and Delivery Revenues to be released to it, free and clear of lien of the Installment Purchase Contract, as long as the bankruptcy court determines that the rights of the Authority or Trustee and the Owners or beneficial owners of the Series 2013 Water Bonds under the Installment Purchase Contract and the Trust Agreement will be adequately protected. Similar issues could arise in the event of the bankruptcy of the Authority.

The City or the District, as applicable, may be able, without the consent and over the objection of the District (with respect to actions of the City), the Authority, the Trustee and Owners or beneficial owners of the Series 2013 Water Bonds, as applicable, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Treatment and Delivery Agreement or Installment Purchase Contract, as applicable, as long as the bankruptcy court determines that the alterations are fair and equitable. Similar issues could arise in the event of the bankruptcy of the Authority.

If the City or the District goes into bankruptcy it may be able to require the District, the Authority, or the Owners and beneficial owners of the Series 2013 Water Bonds to return, as preferential transfers, all payments made under the Treatment and Delivery Agreement or the Installment Purchase Contract, as applicable, during the 90 days, or possibly one year, preceding the bankruptcy.

If the City goes into bankruptcy, it may be able to reject the Treatment and Delivery Agreement. If the District goes into bankruptcy, it may be able to reject the Treatment and Delivery Agreement or the Installment Purchase Agreement. A consequence of such rejections may be that the City is no longer obligated to pay City Gross Water Revenues to the District and that the District is no longer obligated to pay the Treatment and Delivery Revenues to the Authority. Under such circumstances, the Owners and beneficial owners of the Series 2013 Water Bonds may suffer substantial losses.

There may be delays in payments on the Series 2013 Water Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City, the District, or the Authority that could result in delays or reductions in payments on the Series 2013 Water Bonds, or result in losses to the Owners or beneficial owners of the Series 2013 Water Bonds. Regardless of any specific adverse determinations in a bankruptcy proceeding of the City, the District, or the Authority, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and market value of the Series 2013 Water Bonds.

Risk of Investment Losses

Pending delivery of City Gross Water Revenues to the District, the City may, and intends to, invest City Gross Water Revenues in investments authorized for the investment of City funds. See “THE

CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Investment Policy.” Pending delivery of Treatment and Delivery Revenues to the Authority, the District may, and intends to invest Treatment and Delivery Revenues in Permitted Investments as provided in the Installment Purchase Contract. See APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS.” Should any of these investments suffer any losses, there may be delays or reductions in payments on the Series 2013 Water Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2013 Water Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2013 Water Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2013 Water Bonds is less than the amount to be paid at maturity of such Series 2013 Water Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2013 Water Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2013 Water Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2013 Water Bonds is the first price at which a substantial amount of such maturity of the Series 2013 Water Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2013 Water Bonds accrues daily over the term to maturity of such Series 2013 Water Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2013 Water Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2013 Water Bonds. Owners of the Series 2013 Water Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2013 Water Bonds with original issue discount, including the treatment of owners who do not purchase such Series 2013 Water Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2013 Water Bonds is sold to the public.

Series 2013 Water Bonds purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Series 2013 Water Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Series 2013 Water Bonds, like the Premium Series 2013 Water Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an owner’s basis in a Premium Series 2013 Water Bond, will be reduced by the amount of amortizable bond premium properly allocable to such owner. Owners of Premium Series 2013 Water Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2013 Water Bonds. The Authority and the District have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2013 Water Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2013 Water Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2013 Water Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of execution and delivery of the Series 2013 Water Bonds may adversely affect the value of, or the tax status of interest on, the Series 2013 Water Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2013 Water Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2013 Water Bonds may otherwise affect an owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Series 2013 Water Bond or the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Tax legislation or administrative actions taken by tax authorities (whether currently proposed, proposed in the future or enacted) and court decisions may cause interest on the Series 2013 Water Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent the beneficial owners of the Series 2013 Water Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation, actions or decisions could adversely affect the market price or marketability of the Series 2013 Water Bonds. As one example, the Obama Administration's proposed 2014 budget includes a legislative proposal which, for tax years beginning on and after January 1, 2014, generally would limit the exclusion from gross income of interest on obligations like the Series 2013 Water Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect the exclusion from gross income of interest on obligations like the Series 2013 Water Bonds. The introduction or enactment of any such legislative proposals or of any such future legislative proposals, or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2013 Water Bonds. Prospective purchasers of the Series 2013 Water Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2013 Water Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the District have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2013 Water Bonds ends with the issuance of the Series 2013 Water Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the District or the owners of the Series 2013 Water Bonds regarding the tax-exempt status of interest on the Series 2013 Water Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the District and their appointed counsel, including the owners of the Series 2013 Water Bonds, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds or certificates of participation is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2013 Water Bonds for audit, or the course or result of such audit, or an audit of bonds or certificates of participation presenting similar tax issues may affect the market price for, or the marketability of, the Series 2013 Water Bonds, and may cause the Authority, the District or the owners of the Series 2013 Water Bonds to incur significant expense.

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance of the Series 2013 Water Bonds or the execution or delivery of the Installment Purchase Contract or the Trust Agreement, or in any way contesting or affecting the validity of the Trust Agreement, the Installment Purchase Contract or the Treatment and Delivery Agreement or any proceedings of the Authority, the District or the City taken with respect to any of the foregoing.

There is no litigation pending or, to the knowledge of the Authority, the District or the City, threatened, questioning the corporate existence of the Authority, the District or the City, or the title of the officers of the Authority, the District or the City to their respective offices, or the power and authority of the Authority, the District or the City to execute the Trust Agreement, the Installment Purchase Contract or the Treatment and Delivery Agreement, as applicable, or of the District or the City to make payments under the Installment Purchase Contract or the Treatment and Delivery Agreement, as applicable. There is no litigation pending, or to the knowledge of the District or the City, threatened, questioning or affecting in any material respect any of the financial information or projections with respect to the District or the City contained in this Official Statement.

For a discussion of certain litigation filed by the District on August 6, 2013 seeking declaratory relief relating to the interpretation of certain provisions of the Treatment and Delivery Agreement and the applicable cost responsibility of the City and/or the District for certain costs in connection with the Phase Two Expansion project, see "THE DOMESTIC WATER PROJECT – Domestic Water Project Description."

RATINGS

Standard & Poor's Rating Services ("S&P") and Fitch Ratings ("Fitch") are expected to assign the Series 2013 Water Bonds the underlying long-term municipal bond ratings of "AA- (stable outlook)" and "AA-(stable outlook)," respectively, without regard to the Bond Insurance Policy. S&P is expected to assign the Insured Series 2013 Water Bonds the long-term municipal bond rating of "AA- (stable outlook)" with the understanding that upon the delivery of the Insured Series 2013 Water Bonds, the Bond Insurance Policy will be issued for the Insured Series 2013 Water Bonds by Assured Guaranty Municipal Corp. See "BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS." These ratings reflect only the views of the rating agencies and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Standard & Poor's Rating Services, 55 Water Street, 38th Floor, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. There is no assurance that any of such ratings will continue for any given period

of time or that it will not be revised downward or withdrawn entirely by the rating agency that issued it, if in the judgment of such rating agency, circumstances so warrant. The Authority and the District undertake no responsibility to either bring to the attention of the owners of the Series 2013 Water Bonds any revision or withdrawal of any such rating or to contest any such revision or withdrawal. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Series 2013 Water Bonds.

UNDERWRITING

Pursuant to a Purchase Contract with the Authority, Citigroup Global Markets Inc. (the “Underwriter”) has agreed, subject to certain conditions, to purchase the Series 2013 Water Bonds at a price of \$48,823,332.86 (representing the \$43,270,000.00 aggregate principal amount of the Series 2013 Water Bonds, less \$153,929.09 of Underwriter’s discount, and plus \$5,707,261.95 original issue premium). The Purchase Contract provides that the Underwriter will purchase all of the Series 2013 Water Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell Series 2013 Water Bonds to certain dealers (including dealers depositing Series 2013 Water Bond into investment trusts) and others at prices lower than the respective public offering prices stated on the inside cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

Citigroup Inc., parent company of Citigroup Global Markets Inc., the Underwriter of the Series 2013 Water Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Citigroup Global Markets Inc. may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2013 Water Bonds.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the District in connection with the issuance of the Series 2013 Water Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Series 2013 Water Bonds is contingent upon the issuance and delivery of the Series 2013 Water Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2013 Water Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

CERTAIN LEGAL MATTERS

The validity of the Series 2013 Water Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the Authority and the District by the District's General Counsel. Certain legal matters will be passed upon for the City by the City Attorney of the City of Modesto and by Sidley Austin LLP, San Francisco, California. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright. Payment of the fees of Bond Counsel and Underwriter's Counsel is contingent upon sale and delivery of the Series 2013 Water Bonds.

MISCELLANEOUS

The purpose of this Official Statement is to provide information to prospective purchasers of the Series 2013 Water Bonds. References are made herein to the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement and other agreements, documents and reports that are brief summaries thereof which do not purport to be complete or definitive, and reference is hereby made to all such agreements, documents and reports for a full and complete statement of the contents thereof.

Any statements made in this Official Statement involving matters of opinion, estimates or projections, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such estimates or projections will be realized. This Official Statement is not to be construed as a contract or agreement between the purchasers of any of the Series 2013 Water Bonds and the Authority or the District.

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EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by the Authority, the District and the City.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By:  _____
/s/ Nick Blom
Chairperson

MODESTO IRRIGATION DISTRICT


By: _____
/s/ Roger Van Hoy
Interim General Manager

CITY OF MODESTO

By: _____
/s/ Gloriette Genereux
Director of Finance

APPENDIX A

CERTAIN INFORMATION REGARDING THE CITY OF MODESTO

The following information with respect to the City is presented for information purposes only. The Series 2013 Water Bonds do not constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter limitations and the City is not obligated to levy any ad valorem taxes therefor or to use any other funds of the City to pay the Series 2013 Installment Payments or the interest thereon.

General Description

The City, which is the county seat of Stanislaus County, California (the “County”) was incorporated in 1884. It covers approximately 36 square miles. The City operates under a council-manager form of government pursuant to a charter adopted in 1963. The City is located in central California approximately 93 miles east of the City and County of San Francisco.

The City Council (the “Council”) appoints the City Clerk and Auditor, the City Attorney, and the City Manager. The City Manager heads the executive branch of government, implements Council directives and policies, and manages the administrative and operational functions through the various department heads who are appointed by the City Manager.

The City provides the full range of services normally associated with a municipality, including public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. The City also provides parking and airport facilities and water, sewer and bus service. The school districts in the City are separate governmental entities which receive no funding from the City.

Population

The following table represents historical population statistics for the City, the County and the State.

CITY OF MODESTO Population Estimates⁽¹⁾

<u>Calendar Year</u>	<u>City of Modesto</u>	<u>Stanislaus County</u>	<u>State of California</u>
2009	201,331	511,226	36,966,713
2010	201,165	514,453	37,253,956
2011	201,713	516,244	37,427,984
2012	202,852	519,339	37,668,804
2013	205,987	524,124	37,966,471

⁽¹⁾ As of January 1.

Source: California State Department of Finance.

Employment

The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2009 through 2012 and as of June for 2013. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

**MODESTO METROPOLITAN STATISTICAL AREA
(Stanislaus County)
Industry Employment and Labor Force
(Annual Averages)⁽¹⁾**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013⁽¹⁾</u>
<u>Civilian Labor Force</u>					
Employment	197,700	198,300	198,800	203,100	208,700
Unemployment	37,200	41,500	40,000	36,300	30,400
Unemployment Rate	15.8%	17.3%	16.7%	15.2%	12.7%
<u>Wage and Salary Employment:</u>					
Total Farm	12,900	12,900	12,900	13,300	16,700
Mining and Construction	6,600	5,900	5,900	6,300	5,900
Manufacturing	20,900	20,700	20,800	20,800	20,900
Wholesale Trade	6,100	5,900	5,800	5,800	5,900
Retail Trade	19,500	19,500	20,500	20,700	20,900
Transport., Warehousing, Utilities	5,700	6,200	6,700	6,800	7,300
Information	1,300	1,200	1,100	1,000	900
Financial Activities	5,600	5,500	5,400	5,400	5,400
Professional and Business Services	13,200	12,500	12,400	12,800	12,600
Educational and Health Services	22,200	23,200	23,800	24,000	24,100
Leisure and Hospitality	14,700	14,600	14,700	14,900	15,500
Other Services	5,200	5,100	4,800	4,900	5,100
Federal Government	900	1,000	900	900	700
State Government	1,700	1,700	1,800	1,800	1,900
Local Government	23,200	23,600	22,700	22,700	22,700
Total All Industries	159,700	159,200	160,200	162,000	166,500

⁽¹⁾ Annual averages for years 2009 through 2012; as of June for 2013.

Note: Totals may not add up because of rounding.

Source: Labor Division of the California State Employment Development Department.

Major Employers

The following table summarizes the largest manufacturing employers in the County.

COUNTY OF STANISLAUS 2012 Ten Largest Manufacturing Employers

Company Name	No. Employees	Product
E&J Gallo Winery	3,181	Winery
Seneca Foods	2,200	Fruit Products
Stanislaus Food Products	1,900	Tomato Products
Foster Farms	1,722	Poultry Processor
Del Monte Foods	1,700	Fruit Products
Con Agra	1,200	Tomato & Bean Products
Bronco Wine Company	834	Winery
Frito-Lay	684	Snack Food Products
Racor	648	Filtration Products
Foster Farms Dairy	628	Dairy Products

Source: County of Stanislaus Recommended Proposed Budget, Budget Year 2013-2014.

Commercial Activity

The following two tables show the dollar volume of taxable transactions in the City of Modesto from 2008 through 2011 and for the first quarter of 2012 and in the County from 2009 through 2011 and for the first quarter of 2012.

CITY OF MODESTO Taxable Transactions Calendar Years 2008 through 2012⁽¹⁾ (in Thousands of Dollars)

Type of Business ⁽²⁾	2008 ⁽²⁾	2009	2010	2011	2012 ⁽³⁾
Motor Vehicle and Parts Dealers	\$ 157,535	\$ 121,240	\$ 123,746	\$ 141,665	\$ 40,402
Home Furnishings and Appliance Stores	101,735	110,983	109,298	104,938	28,639
Building Materials and Garden Equipment and Supplies	119,759	121,934	117,839	123,509	31,173
Food and Beverage Stores	140,336	146,848	147,798	152,366	36,124
Gasoline Stations	184,299	140,156	158,889	205,418	52,853
Clothing and Clothing Accessories Stores	153,309	181,187	193,425	212,019	50,636
General Merchandise Stores	479,820	397,710	395,789	399,048	88,960
Food Services and Drinking Places	272,113	267,027	270,400	283,815	75,039
Other Retail Group	326,105	224,693	225,611	266,031	54,374
Retail Stores Totals	\$1,935,011	\$1,711,777	\$1,742,796	\$1,848,808	458,201
All Other Outlets	476,868	547,994	613,902	686,264	151,841
All Outlets	\$2,411,879	\$2,259,771	\$2,356,698	\$2,535,072	\$610,042

⁽¹⁾ Last year of available information.

⁽²⁾ Some category names for types of business are different for calendars years 2007 and 2008.

⁽³⁾ Through first quarter of 2012.

Source: State of California, Board of Equalization.

COUNTY OF STANISLAUS
Taxable Transactions
Calendar Years 2009 through 2012⁽¹⁾
(in Thousands of Dollars)

Retail Outlets	2009	2010	2011	2012⁽²⁾
Motor Vehicle and Parts Dealers	\$ 603,221	\$ 667,202	\$ 759,797	\$ 216,527
Furniture and Home Furnishings Stores	78,896	78,254	80,300	20,860
Electronics and Appliance Stores	114,146	109,499	107,390	29,092
Building Material and Garden Equipment and Supplies	379,318	388,859	408,346	107,075
Food and Beverage Stores	297,253	302,012	307,077	72,166
Health and Personal Care Stores	99,013	105,182	110,367	27,727
Gasoline Stations	516,398	599,577	714,239	181,340
Clothing and Clothing Accessories Stores	239,037	254,352	275,708	65,389
Sporting Goods, Hobby, Book and Music Stores	118,244	118,057	118,191	29,133
General Merchandise Stores	760,551	768,989	772,310	173,147
Miscellaneous Store Retailers	181,250	177,114	177,496	41,337
Nonstore Retailers	34,006	34,974	35,001	7,577
Food Services and Drinking Places	504,306	508,627	527,790	138,702
Subtotal	\$3,925,638	\$4,112,697	\$4,394,011	\$1,110,073
All Other Outlets	1,921,419	1,985,917	2,268,455	546,732
All Outlets	\$5,847,057	\$6,098,614	\$6,662,466	\$1,656,805

⁽¹⁾ Last year of available information.

⁽²⁾ Through first quarter of 2012.

Source: State of California, Board of Equalization.

Construction Trends

“Single Family Housing,” includes detached, semi-detached, rowhouse and townhouse units. Rowhouses and townhouses are included when each unit is separated from the adjacent unit by an unbroken ground-to-roof party or fire wall. Condominiums are included in single-family when they are of zero-lot-line or zero-property-line construction; when units are separated by an air space; or, when units are separated by an unbroken ground-to-roof party or fire wall. “Multi-Family Housing,” includes duplexes, 3-4-unit structures and apartment-type structures with five units or more. Multi-family housing also includes condominium units in structures of more than one living unit that do not meet the above single-family housing definition. “Residential Alterations and Additions,” means alterations, additions, and conversions to residential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators, signs, etc.

“New Commercial,” includes new hotels and motels, office and bank buildings, stores and other mercantile buildings, parking garages, service stations, and amusement and recreational buildings. “New Industrial,” includes manufacturing plants and affiliated buildings. “Other New Nonresidential,” includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, and miscellaneous nonresidential structures. “Nonresidential Alterations and Additions,” means alterations, additions, and conversions to nonresidential structures, excluding special installation permits for electrical, plumbing, heating, air-conditioning, or similar mechanical work, or installation of fire escapes, elevators and signs, etc.

Provided below are the building permits and valuations for the City of Modesto for calendar years 2008 through 2012.

CITY OF MODESTO
Residential and Nonresidential Building Permit Valuations
and Total Residential Building Permits

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Permit Valuation					
New Single-family	\$23,549,600	\$ 4,563,900	\$ 5,142,200	\$ 6,546,152	\$ 1,630,712
New Multi-family	-	-	-	-	7,127,105
Res. Alterations & Additions	7,524,500	7,735,200	6,644,300	5,435,328	18,928,052
Total Residential	<u>\$31,074,100</u>	<u>\$12,299,100</u>	<u>\$11,786,500</u>	<u>\$11,981,480</u>	<u>\$27,685,869</u>
New Nonresidential	25,656,500	11,794,300	13,906,300	4,651,393	11,842,526
Non-Res. Alterations & Additions	28,581,500	16,345,400	14,948,600	21,226,479	18,990,301
Total Nonresidential	<u>\$54,238,000</u>	<u>\$28,139,700</u>	<u>\$28,854,900</u>	<u>\$25,877,872</u>	<u>\$30,832,827</u>
Total All Building	<u>\$85,312,100</u>	<u>\$40,438,800</u>	<u>\$40,641,400</u>	<u>\$37,859,352</u>	<u>\$58,518,696</u>
New Dwelling Units					
Single Family	113	18	35	38	8
Multiple Family	0	0	0	0	10
Total	<u>113</u>	<u>18</u>	<u>35</u>	<u>38</u>	<u>18</u>

Note: Totals may not add up because of rounding.

Source: California Homebuilding Foundation/Construction Industry Research Board.

Agriculture

The following table summarizes historical agricultural production within the County for calendar years 2007 through 2011.

STANISLAUS COUNTY
Agricultural Production
2007-2011
(\$ in 000s)

<u>Commodity</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Fruit and Nut Crops	\$ 755,650	\$ 756,392	\$ 766,741	\$ 703,874	\$1,061,047
Vegetable Crops	100,416	104,930	208,944	244,263	166,420
Field Crops	175,779	265,724	184,294	233,440	319,359
Other Agriculture	--	9,540	19,619	25,646	26,194
Seed Crops	756	813	1,153	643	1,470
Apiary	31,139	43,911	46,847	48,630	50,643
Nursery Products	99,985	101,207	96,795	114,363	95,645
Organic Products	15,225	10,055	15,000	8,000	41,244
Livestock & Poultry	446,133	434,125	463,056	552,892	500,480
Livestock & Poultry Products	796,567	747,146	507,621	640,683	807,321
TOTALS	<u>\$2,421,650</u>	<u>\$2,473,843</u>	<u>\$2,310,070</u>	<u>\$2,572,434</u>	<u>\$3,069,823</u>

Source: Stanislaus County Department of Agriculture.

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APPENDIX B

EXCERPTED FINANCIAL STATEMENTS OF THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM

The City has filed its Comprehensive Annual Financial Report (“CAFR”) for Fiscal Year 2011-12 with EMMA. Such CAFR is incorporated herein by reference. The following are excerpts from the CAFR relating to the City Water Utility System.

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CITY OF MODESTO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2012

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 68,854,649	\$ 52,921,646	\$ 4,531,924	\$ 6,549,989	\$ 132,858,208	\$ 34,572,907
Cash and cash equivalents with fiscal agent	22,182,781	4,023,789	-	603,150	26,809,720	305,081
Receivables:						
Accounts	1,610	45,200	20,809	854,774	922,393	787,363
Interest	226,783	153,417	8,803	20,995	409,998	74,591
Utilities, net	6,435,857	4,074,441	-	567,764	11,078,062	-
Prepaid expenses	925,475	932	-	1,342	927,749	189,785
Due from governments	12,017	1,997,812	3,512,850	197,501	5,720,180	8,422
Inventories	-	-	-	-	-	451,280
Property held for resale	-	-	-	630,000	630,000	-
Advances to other funds	350,000	-	-	-	350,000	2,431,738
Total current assets	<u>98,989,172</u>	<u>63,217,237</u>	<u>8,074,386</u>	<u>9,425,515</u>	<u>179,706,310</u>	<u>38,821,167</u>
Noncurrent assets:						
Restricted assets-cash and cash equivalents	10,063,311	1,455,092	-	-	11,518,403	12,002,745
Unamortized costs of issuance	1,019,257	661,796	-	-	1,681,053	-
Deferred outflow of resource	48,366,329	-	-	-	48,366,329	-
Land and construction in progress	22,726,783	70,556,533	17,813,086	11,393,617	122,490,019	8,168,389
Other capital assets, net of accumulated depreciation	440,157,705	119,086,600	13,001,116	38,548,980	610,794,401	12,631,400
Total noncurrent assets	<u>522,333,385</u>	<u>191,760,021</u>	<u>30,814,202</u>	<u>49,942,597</u>	<u>794,850,205</u>	<u>32,802,534</u>
Total assets	<u>621,322,557</u>	<u>254,977,258</u>	<u>38,888,588</u>	<u>59,368,112</u>	<u>974,556,515</u>	<u>71,623,701</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 1,231,057	\$ 2,466,225	\$ 1,417,148	\$ 252,916	\$ 5,367,346	\$ 1,990,070
Accrued salaries and benefits	304,312	281,036	48,093	150,864	784,305	208,477
Interest payable	2,310,011	352,239	2,319	41,196	2,705,765	1,978
Due to other funds	-	-	-	653,535	653,535	-
Due to other governments	-	-	-	-	-	-
Current portion - compensated absences	-	-	-	-	-	8,326,852
Current portion - claims liability	-	-	-	-	-	5,215,194
Current portion - capital lease	-	-	-	-	-	174,837
Current portion - long-term debt	5,540,327	1,955,000	-	275,000	7,770,327	-
Current portion - developer advances	93,112	-	-	-	93,112	-
Deferred revenues	-	-	3,827,998	107,310	3,935,308	-
Total current liabilities	<u>9,478,819</u>	<u>5,054,500</u>	<u>5,295,558</u>	<u>1,480,821</u>	<u>21,309,698</u>	<u>15,917,408</u>
Noncurrent liabilities:						
Payable from restricted assets - refundable deposits	1,123,874	781,872	-	-	1,905,746	-
Compensated absences	-	-	-	-	-	2,560,862
Net OPEB obligation	-	-	-	-	-	70,012,039
Claims liability	-	-	-	-	-	18,000,713
Long-term debt:						
Revenue bonds payable	145,810,000	41,353,177	-	-	187,163,177	-
Derivative instrument SWAP	48,366,329	-	-	-	48,366,329	-
Loan payable	4,611,831	10,236,708	-	-	14,848,539	-
Notes payable	-	-	-	-	-	-
Obligations under capital leases	-	-	-	-	-	359,990
Certificates of participation	45,467,067	-	-	4,185,000	49,652,067	-
Developer advances	1,517,785	-	-	-	1,517,785	-
Advances from other funds	-	-	-	1,324,704	1,324,704	-
Total noncurrent liabilities	<u>246,896,886</u>	<u>52,371,757</u>	<u>-</u>	<u>5,509,704</u>	<u>304,778,347</u>	<u>90,933,604</u>
Total liabilities	<u>256,375,705</u>	<u>57,426,257</u>	<u>5,295,558</u>	<u>6,990,525</u>	<u>326,088,045</u>	<u>106,851,012</u>
Invested in capital assets, net of related debt	270,301,588	136,771,468	30,814,202	45,482,597	473,757,198	20,439,799
Unrestricted	94,645,264	60,779,533	2,778,828	6,894,990	174,711,272	(55,667,110)
Total net assets	<u>\$ 364,946,852</u>	<u>\$ 197,551,001</u>	<u>\$ 33,593,030</u>	<u>\$ 52,377,587</u>	<u>648,468,470</u>	<u>\$ (35,227,311)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(22,707,617)</u>	
Net assets of business-type activities					<u>\$ 625,760,853</u>	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
Year ended June 30, 2012

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
OPERATING REVENUES:						
Charges for services	\$ 57,338,565	\$ 41,804,518	\$ 2,887,841	\$ 14,562,561	\$ 116,593,485	\$ 39,702,048
Sales	-	-	-	-	-	3,400,703
Cost of sales	-	-	-	-	-	(3,125,905)
Miscellaneous	195,626	21,410	4,698	56,184	277,918	-
Total operating revenues	<u>57,534,191</u>	<u>41,825,928</u>	<u>2,892,539</u>	<u>14,618,745</u>	<u>116,871,403</u>	<u>39,976,846</u>
OPERATING EXPENSES:						
Salaries and wages	6,439,990	5,823,441	1,067,837	3,347,533	16,678,801	4,055,178
Contractual services	6,629,458	3,850,027	10,785,011	3,007,238	24,271,734	3,576,410
Utilities	2,440,121	1,603,221	108,355	503,202	4,654,899	253,537
Maintenance and supplies	2,301,818	2,216,023	1,831,161	3,627,551	9,976,553	3,090,742
Water purchases	6,822,552	-	-	-	6,822,552	-
Insurance	321,755	547,333	45,710	258,971	1,173,769	15,897,901
Claims expense	-	-	-	-	-	8,089,359
Employee benefits	2,359,762	2,543,297	470,303	1,389,821	6,763,183	18,443,427
Administration services	1,722,725	1,757,198	895,100	2,231,810	6,606,833	2,160,182
Allocated indirect administrative costs	1,142,082	989,972	131,573	354,051	2,617,678	269,173
Depreciation	15,771,300	5,821,148	1,439,223	2,869,467	25,901,138	3,513,676
Total operating expenses	<u>45,951,563</u>	<u>25,151,660</u>	<u>16,774,273</u>	<u>17,589,644</u>	<u>105,467,140</u>	<u>59,349,585</u>
OPERATING INCOME (LOSS)	<u>11,582,628</u>	<u>16,674,268</u>	<u>(13,881,734)</u>	<u>(2,970,899)</u>	<u>11,404,263</u>	<u>(19,372,739)</u>
NONOPERATING REVENUES (EXPENSES)						
Operating grants	-	42,471	12,381,968	269,619	12,694,058	-
Gain (Loss) on disposition of capital assets	46,875	(24,995)	(8)	(12,885)	8,987	(60,823)
Tax revenue	-	-	-	253,974	253,974	-
Tax expense	(89,214)	(13,569)	-	(20,988)	(123,771)	-
Interest income	668,853	642,195	(7,262)	59,092	1,362,878	522,210
Net increase in fair value of investments	(415,836)	(79,538)	(12,025)	(31,109)	(538,508)	(135,356)
Rental income	43,941	509,617	88,392	629,627	1,271,577	-
Settlements and recoveries	-	222,379	-	-	222,379	-
Interest expense	(5,960,188)	(2,350,391)	-	(233,197)	(8,543,776)	(421)
Trustee fees	(2,600)	(2,509)	-	(2,800)	(7,909)	-
Amortization of costs of issuance	(69,159)	(58,667)	-	-	(127,826)	-
Total nonoperating revenues (expenses)	<u>(5,777,328)</u>	<u>(1,113,007)</u>	<u>12,451,065</u>	<u>911,333</u>	<u>6,472,063</u>	<u>325,610</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	5,805,300	15,561,261	(1,430,669)	(2,059,566)	17,876,326	(19,047,129)
Capital contributions	103,081	958,919	10,670,078	289,715	12,021,793	3,527
Transfers in	-	-	1,630	1,992,470	1,994,100	5,985,281
Transfers out	(2,176,439)	(641,220)	(8,402)	(2,006,912)	(4,832,973)	(307,205)
Special item	(388,651)	(437,482)	-	-	(826,133)	-
CHANGE IN NET ASSETS	3,343,291	15,441,478	9,232,637	(1,784,293)	26,233,113	(13,365,526)
NET ASSETS, July 1	375,889,162	182,069,143	24,398,728	54,900,630		(21,877,777)
PRIOR YEAR ADJUSTMENTS	<u>(14,285,601)</u>	<u>40,380</u>	<u>(38,335)</u>	<u>(738,750)</u>		<u>15,992</u>
NET ASSETS, June 30	<u>\$ 364,946,852</u>	<u>\$ 197,551,001</u>	<u>\$ 33,593,030</u>	<u>\$ 52,377,587</u>		<u>\$ (35,227,311)</u>
Adjustment to reflect the consolidation of internal service fund					(4,669,995)	
Change in net assets of business-type activities					<u>\$ 21,563,118</u>	

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year ended June 30, 2012

	Enterprise					Internal Service
	Water	Sewer	Bus	Other Enterprise	Total Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 58,815,606	\$ 39,922,901	\$ 2,969,926	\$ 15,162,240	\$ 116,870,673	\$ 3,654,790
Receipts from interfund services provided	60,002	465,310	-	18,537	543,849	36,165,584
Payments to suppliers	(17,008,503)	(4,237,260)	(13,087,654)	3,197,298	(31,136,119)	(21,890,737)
Payment of insurance claims	-	-	-	-	-	(5,539,896)
Payments to employees	(8,740,777)	(8,332,425)	(1,533,811)	(4,715,968)	(23,322,981)	(10,708,372)
Payments for interfund services used	(6,791,105)	(6,462,673)	(1,328,859)	(13,304,438)	(27,887,075)	(3,404,618)
Net cash provided (used) by operating activities	<u>26,335,223</u>	<u>21,355,853</u>	<u>(12,980,398)</u>	<u>357,669</u>	<u>35,068,347</u>	<u>(1,723,249)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating grants received	-	42,471	10,905,684	235,712	11,183,867	-
Taxes received	-	-	-	458,992	458,992	-
Settlements and recoveries	-	222,379	-	-	222,379	-
Interest paid	-	-	-	-	-	1,978
Transfers in	-	-	1,630	1,992,470	1,994,100	5,985,281
Transfers out	(2,176,439)	(641,220)	(8,402)	(2,006,912)	(4,832,973)	(307,205)
Advances from (to) other funds	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(2,176,439)</u>	<u>(376,370)</u>	<u>10,898,912</u>	<u>680,262</u>	<u>9,026,365</u>	<u>5,680,054</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(3,317,474)	(11,007,485)	(10,632,422)	379,708	(24,577,673)	(5,433,945)
Proceeds of sale of capital assets	-	-	-	(12,885)	(12,885.00)	(60,823)
Proceeds of debt issues	-	-	-	-	-	-
Payment to bond escrow agent	-	-	-	-	-	-
Costs of issuance paid	42,469	46,220	-	-	88,689	-
Principal repayments	(818,936)	8,470,396	-	(265,000)	7,386,460	(191,806)
Interest paid	(3,779,081)	(2,424,516)	-	(235,160)	(6,438,757)	(421)
Trustee fees	(2,600)	(2,509)	-	(2,800)	(7,909)	-
Capital grants received	-	-	10,670,078	(41,319)	10,628,759	-
Net cash used by capital and related financing activities	<u>(7,875,622)</u>	<u>(4,917,894)</u>	<u>37,656</u>	<u>(177,456)</u>	<u>(12,933,316)</u>	<u>(5,686,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	733,584	590,434	8,093	56,615	1,388,726	552,623
Net increase in the fair value of investments	(415,836)	(79,538)	(12,025)	(31,109)	(538,508)	(135,356)
Net cash provided by investing activities	<u>317,748</u>	<u>510,896</u>	<u>(3,932)</u>	<u>25,506</u>	<u>850,218</u>	<u>417,267</u>
Net increase (decrease) in cash and cash equivalents	16,600,910	16,572,485	(2,047,762)	885,981	32,011,614	(1,312,923)
CASH AND CASH EQUIVALENTS, JULY 1	98,785,432	41,787,662	6,618,021	7,005,908	154,197,023	48,177,664
PRIOR PERIOD ADJUSTMENT	(14,285,601)	40,380	(38,335)	(738,750)	(15,022,306)	15,992
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 101,100,741</u>	<u>\$ 58,400,527</u>	<u>\$ 4,531,924</u>	<u>\$ 7,153,139</u>	<u>\$ 171,186,331</u>	<u>\$ 46,880,733</u>
RECONCILIATION TO STATEMENT OF NET ASSETS:						
Cash and cash equivalents	\$ 68,854,649	\$ 52,921,646	\$ 4,531,924	\$ 6,549,989	\$ 132,858,208	\$ 34,572,907
Cash and cash equivalents with fiscal agent	22,182,781	4,023,789	-	603,150	26,809,720	305,081
Restricted assets-cash and cash equivalents	10,063,311	1,455,092	-	-	11,518,403	12,002,745
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 101,100,741</u>	<u>\$ 58,400,527</u>	<u>\$ 4,531,924</u>	<u>\$ 7,153,139</u>	<u>\$ 171,186,331</u>	<u>\$ 46,880,733</u>

(continued)

The notes to basic financial statements are an integral part of this statement.

CITY OF MODESTO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
Year ended June 30, 2012

	Enterprise				Total Enterprise	Internal Service
	Water	Sewer	Bus	Other Enterprise		
RECONCILIATION OF OPERATING INCOME (LOSS)						
TO NET CASH PROVIDED (USED) BY OPERATING						
ACTIVITIES:						
Operating income (loss)	\$ 11,582,628	\$ 16,674,268	\$ (13,881,734)	\$ (2,970,899)	\$ 11,404,263	\$ (19,372,739)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	15,771,300	5,821,148	1,439,223	2,869,467	25,901,138	3,513,676
Rental income	43,941	509,617	88,392	629,627	1,271,577	-
Taxes paid	(89,214)	(13,569)	-	184,030	81,247	-
Special item	(388,651)	(437,482)	-	-	(826,133)	-
Change in assets and liabilities:						
(Increase) in accounts receivable	10,463	(10,213)	(11,005)	(552,504)	(563,259)	(160,050)
(Increase) in utilities receivable	236,260	27,131	-	356,647	620,038	-
(Increase) in taxes receivable	-	-	-	-	-	-
Decrease in due from governments	1,012,381	(1,997,812)	-	-	(985,431)	3,578
(Increase) decrease in prepaid expenses	555,496	1,318	5,312	(1,175)	560,951	412,825
(Increase) in inventories	-	-	-	-	-	(23,014)
(Decrease) in accounts payable and accrued expenses	(2,496,728)	713,574	(624,915)	96,897	(2,311,172)	(23,612)
Increase in accrued salaries and benefits	58,975	34,313	4,329	21,386	119,003	32,936
Increase in compensated absences and OPEB	-	-	-	-	-	11,754,282
(Decrease) in claims liability	-	-	-	-	-	2,138,869
Increase in due to other governments	-	-	-	(43,699)	(43,699)	-
Increase in due to other funds	-	-	-	(155,656)	(155,656)	-
Increase in deferred revenues	(12,073)	(351)	-	(76,452)	(88,876)	-
Increase (decrease) in refundable deposits	50,445	33,911	-	-	84,356	-
Total adjustments	<u>14,752,595</u>	<u>4,681,585</u>	<u>901,336</u>	<u>3,328,568</u>	<u>23,664,084</u>	<u>17,649,490</u>
Net cash provided (used) by operating activities	<u>\$ 26,335,223</u>	<u>\$ 21,355,853</u>	<u>\$ (12,980,398)</u>	<u>\$ 357,669</u>	<u>\$ 35,068,347</u>	<u>\$ (1,723,249)</u>

NONCASH INVESTING, CAPITAL AND FINANCING
ACTIVITIES:

Capital assets transferred in	\$ 103,081	\$ 958,919	\$ 10,670,078	\$ 289,715	\$ 12,021,793	\$ 3,527
Developer infrastructure contributions						
Amortization of bonds discount and deferred amount on refunding						

The notes to basic financial statements are an integral part of this statement.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

Certain provisions of the Installment Purchase Contract and the Trust Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of such documents.

DEFINITIONS

All capitalized terms not defined below have the meanings set forth in the Trust Agreement or the Installment Purchase Contract.

“Act” means the Joint Exercise of Powers Act, constituting Chapter 5 of Title 1 of Division 7 of the California Government Code (Sections 6500 et seq.) as amended and supplemented to the date of the Trust Agreement.

“Bond Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the City of Modesto and the Trustee dated the date of issuance and delivery of the Series 2013G Water Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Depository” means Wells Fargo Bank, National Association, as trustee, and its successors and assigns in its capacity as Depository under the Installment Purchase Contract.

“Domestic Water Bonds” means the outstanding Modesto Irrigation District Financing Authority Domestic Water Project Revenue Bonds, Series 2007F and the Series 2013G Water Bonds.

“Domestic Water Contract” means the Installment Purchase Contract, the Series F Installment Purchase Contract, Domestic Water Swap Contracts, and all contracts of the District authorized and executed by the District under and pursuant to the Law, the Domestic Water Installment Payments under which are on a parity with the Series G Domestic Water Installment Payments and are secured by a pledge of and lien on the Treatment and Delivery Revenues.

“Domestic Water Installment Payments” means: (1) in connection with the financing of the Domestic Water System, the installment payments of interest and principal scheduled to be paid by the District, and (2) Domestic Water Swap Installment Payments, under and pursuant to the Domestic Water Contracts.

“Domestic Water Project” means the acquisition, design, construction and installation of certain initial facilities, including diversion facilities, water treatment facilities, pipelines, pumps, storage facilities and other improvements, comprising the original project component of the Domestic Water System as described in the Installment Purchase Contract.

“Domestic Water Service” means the treated water furnished, made available or sold by the Domestic Water System.

“Domestic Water Swap Contracts” means all interest rate swap contracts entered into by the Authority and payable from Domestic Water Swap Installment Payments.

“Domestic Water Swap Installment Payments” means regularly scheduled payments and termination payments, if any, made to third-party counterparties pursuant to interest rate swap agreements, including but not limited to, the Series 2007F Swap Contract Payments.

“Domestic Water System” means all facilities related to the treatment, transmission, storage, distribution and pumping and all other properties, structures or works for the treatment, transmission, storage, distribution and pumping of domestic water and all rights to obtain, control or receive domestic water services heretofore or hereafter acquired or constructed by the District together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

“Federal Securities” means any of the following:

1. Cash.
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series “SLGs”)
3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities
4. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book entry form are acceptable.
5. Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.
6. U.S. Obligation issued by the following agencies which are backed by the full faith and credit of the U.S.
 - a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 - b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
 - c. Federal Financing Bank
 - d. General Services Administration
Participation certificates
 - e. U.S. Maritime Administration
Guaranteed Title XI financing
 - f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures – U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

“Installment Purchase Contract” means the Installment Purchase Contract by and between the District and the Authority dated as of November 1, 1992, as amended and restated as of July 1, 1995 and as further amended and restated as of February 1, 1998 and as further amended and restated as of August 1, 2013, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

“Insured Series 2013G Water Bonds” means Series 2013G Water Bonds maturing on September 1, 2019 through and including September 1, 2022.

“Interest Payment Date” means March 1, 2014, and each March 1 and September 1 thereafter.

“Law” means the Irrigation District Law of the State of California (being Division 11 of the Water Code of the State of California, as amended) and all laws amendatory thereof or supplemental thereto.

“Maintenance and Operation Costs of the Domestic Water System” shall mean the costs set forth in Sections 14.2, 14.3, 14.4, 14.5, 14.6 and 14.7 of the Treatment and Delivery Agreement and similar costs related to the Domestic Water System.

“Maximum Annual Series G Domestic Water Installment Payments” means the greatest annual Series G Domestic Water Installment Payment payable in any year ending on September 1 during the period beginning with the then current year and ending with the year ending on September 1, 2022.

“Municipal Bond Insurance Policy” means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of the principal of and interest on the Insured Series 2013G Water Bonds when due.

“Net Proceeds” means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

“Permitted Investments” means any of the following which at the time are legal investments under the laws of the State of California for moneys held under the Trust Agreement and then proposed to be invested therein:

A. Direct obligations of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

1. United States Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (“FHA”)
5. General Services Administration
Participation certificates

6. Government National Mortgage Association (“GNMA” or “Ginnie Mae”)
 - GNMA – guaranteed mortgage-backed bonds
 - GNMA – guaranteed pass-through obligations
7. United States Maritime Administration
 - Guaranteed Title XI financing
8. United States Department of Housing and Urban Development (“HUD”)
 - Project Notes
 - Local Authority Bonds
 - New Communities Debentures - United States government guaranteed debentures
 - U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
 - Senior debt obligations
2. Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”)
 - Participation Certificates
 - Senior debt obligations
3. Federal National Mortgage Association (“FNMA” or “Fannie Mae”)
 - Mortgage-backed securities and senior debt obligations
4. Senior Loan Marketing Association (“SLMA” or “Sallie Mae”)
 - Senior debt obligations
5. Resolution Funding Corporation (“REFCORP”) obligations
6. Farm Credit System
 - Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m,” or “AA m” and if rated by Moody’s, rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks (including affiliates of the Trustee), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including Guaranteed Investment Contracts, Forward Purchase Agreements and Reserve Fund Put Agreements.

H. Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1+" by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1+" or "A" or better by S&P.

K. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

a. Repos must be between the municipal entity and a dealer bank or securities firm

(1) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Ratings Group and Moody's, or

(2) Banks rated "A" or above by Standard & Poor's Ratings Group and Moody's Investor Services.

b. The written repo contract must include the following:

(1) Securities which are acceptable for transfer are:

(a) Direct U.S. governments

(b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

(2) The term of the repo may be up to 30 days

(3) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) The trustee has a perfected first priority security interest in the collateral.

(5) Valuation of Collateral

(a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(b) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. Legal opinion which must be delivered to the municipal entity:

Repo meets guidelines under state law for legal investment of public funds.

L. Any state administered pool investment fund in which the District is statutorily permitted or required to invest, including, but not limited to participation in the Local Agency Investment Fund (LAIF).

“Prior Water Bonds” means the Authority’s unpaid Domestic Water Project Refunding Revenue Bonds, Series 1998D.

“Project Fund” means the Modesto Irrigation District Domestic Water Project Fund, Series 2013G established pursuant to the Trust Agreement.

“Reserve Policy” means the municipal bond debt service reserve insurance policy issued by the Bond Insurer guaranteeing certain payments into the Series 2013G Reserve Fund as provided therein and subject to the limitations set forth therein.

“Revenues” means all Installment Payments and other payments made by the District and received by the Authority pursuant to the Installment Purchase Contract and all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) pursuant to the Trust Agreement.

“Series G Domestic Water Installment Payments” means the Series G Domestic Water Installment Payments scheduled to be paid pursuant to the Installment Purchase Contract.

“Series 2007F Swap Counterparty” means JPMorgan Chase Bank, N.A., as assignee of Bear Stearns Capital Markets, and any successors and assigns.

“Series 2007F Swap Contract” means, collectively, the ISDA Master Agreement, two Confirmations, the Credit Support Annex and the Schedule, each between the Authority and the Series 2007F Swap Counterparty, and dated June 5, 2007, as originally executed and as they may from time to time be amended or supplemented in accordance with their terms.

“Series 2007F Swap Contract Payments” means regularly scheduled payments and termination payments, if any, due to the Series 2007F Swap Counterparty, under the Series 2007F Swap Contract.

“Series 2013G Reserve Fund” means the Series 2013G Reserve Fund established pursuant to the Installment Purchase Contract.

“Series 2013G Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the Maximum Annual Series G Domestic Water Installment Payments.

“Series 2013G Revenue Fund” means the Series 2013G Revenue Fund established pursuant to the Trust Agreement.

“Series 2013G Water Bonds” means the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, issued pursuant to the Trust Agreement.

“Tax Certificate” means the Tax Certificate and Agreement, if any, delivered by the Authority and the District at the time of the issuance and delivery of the Series 2013G Water Bonds, as the same may be amended or supplemented by its terms.

“Treatment and Delivery Agreement” means the Amended and Restated Treatment and Delivery Agreement, executed and delivered during 2005 by the District and the City of Modesto, as amended by the Financing Amendments to Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007, by and between the District and the City of Modesto, as it may be further amended from time to time in accordance with its terms.

“Treatment and Delivery Revenues” means the Debt Service portion of the total sum to be paid by the City of Modesto as set forth in the Treatment and Delivery Agreement.

“Trust Agreement” means the Trust Agreement, dated as of August 1, 2013, by and among the Trustee, the District and the Authority, pursuant to which the Authority has issued its Series 2013G Water Bonds.

SUMMARY OF INSTALLMENT PURCHASE CONTRACT

Acquisition of the Domestic Water Project

The District transfers the property, rights and interests in the Domestic Water Project to the Authority for the purpose of acquiring, designing, constructing, improving and installing the Domestic Water Project and agrees to purchase the Domestic Water Project from the Authority at the Purchase Price set forth in the Installment Purchase Contract. The Authority caused the Domestic Water Project to be acquired, designed, constructed, improved and installed by the District as its agent. The District entered into contracts and, as agent for the Authority, provided for the complete acquisition, design, construction, improvement and installation of the Domestic Water Project. The District and the Authority agree that the District caused the acquisition, design, construction, improvement and installation of the Domestic Water Project to be diligently performed and that the District used its best efforts to cause the acquisition, design, construction, improvement and installation of the Domestic Water Project to be completed. The Authority shall be under no liability of any kind or character whatsoever for the payment of any cost of the Domestic Water Project and all such costs and expenses have been or shall be paid by the District, regardless of whether the funds deposited in the Project Fund are sufficient to cover all such costs and expenses. Upon payment of the Purchase Price by the District in full as provided in the Installment Purchase Contract and the application of such Purchase Price to the refunding and defeasance of the Prior Water Bonds, the transfer of the property, rights and interests to the District from the Authority described in the Installment Purchase Contract shall be ratified and confirmed in all respects without any further action by the District or the Authority.

Domestic Water Installment Payments

Purchase Price. (a) The Purchase Price to be paid under the Installment Purchase Contract by the District to the Authority is the sum of the aggregate principal amount of the District’s obligations thereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date of the Installment Purchase Contract over the term thereof, subject to prepayment as provided therein.

(b) The principal amount of the Series G Domestic Water Installment Payments to be made by the District under Installment Purchase Contract is \$93,190,000.

(c) The interest to accrue on the unpaid balance of such principal amounts of Series G Domestic Water Installment Payments is as specified in the Installment purchase Contract and shall be paid by the District as and constitutes interest paid on the principal amount of the District’s obligations thereunder.

Series G Domestic Water Installment Payments. The District shall, subject to any rights of prepayment provided in the Installment Purchase Contract, pay the Trustee, on behalf of the Authority, the Purchase Price in Series G Domestic Water Installment Payments on each Domestic Water Installment Payment Date for the payment of principal of (whether at maturity or upon redemption or acceleration), redemption premium, if any, and interest on the Series 2013G Water Bonds until the principal of, redemption premium, if any, and interest on the Series 2013G Water Bonds shall have been fully paid or provision for the payment thereof have been made in accordance with the Trust Agreement, in immediately available funds, for deposit in the Series 2013G Revenue Fund.

Each Domestic Water Installment Payment shall be payable to the Trustee on behalf of the Authority on or before the 15th day of the month before its due date in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under the Installment Purchase Contract, such payment shall continue as an obligation of the District until such amount has been fully paid, and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Domestic Water Installment Payments if paid in accordance with its terms.

Obligation to Pay. The obligation of the District to make the Domestic Water Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Contract), the District will not discontinue or suspend any Domestic Water Installment Payments required to be made by it under Installment Purchase Contract when due, whether or not the Domestic Water Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement, including but not limited to the Treatment and Delivery Agreement, for any cause whatsoever; provided, however that in accordance with the Installment Purchase Contract, the District's obligation to so make the Domestic Water Installment Payments is payable solely from Treatment and Delivery Revenues.

Authority Option to Repay. The Authority may, at any time, repay to the District an amount equal to that amount required to be deposited by the District to discharge its obligations under the Installment Purchase Contract, which amount, if so paid, the District shall so deposit in the time, form and manner specified thereunder.

Revenues

All Treatment and Delivery Revenues are irrevocably pledged to the payment of the Domestic Water Installment Payments as provided in the Installment Purchase Contract, and the Treatment and Delivery Revenues shall not be used for any other purpose while any of the Domestic Water Installment Payments remain unpaid; provided, however, that out of the Treatment and Delivery Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Contract. This pledge shall constitute a first lien on the Treatment and Delivery Revenues for the payment of the Domestic Water Installment Payments and all other Domestic Water Contracts and Domestic Water Bonds in accordance with the terms of the Installment Purchase Contract; provided, however, that the foregoing pledge shall secure any portion of Domestic Water Swap Installment Payments that constitute termination payments under a Domestic Water Swap Contract on a second lien subordinate basis, and such security for such termination payments shall be junior to the pledge of Treatment and Delivery Revenues securing other Domestic Water Installment Payments.

Allocation of Treatment and Delivery Revenues. In order to carry out and effectuate the pledge and lien set forth in the Installment Purchase Contract, all Treatment and Delivery Revenues shall be deposited when and as available or received in the Modesto Irrigation District Domestic Water Project Revenue Fund (the "Domestic Water Project Revenue Fund"), which the District agrees and covenants to establish and maintain so long as any Domestic Water Installment Payments remain unpaid, and all moneys in the Domestic Water Project Revenue Fund shall be so held in trust and applied and used solely as provided in the Installment Purchase Contract. All moneys in the Domestic Water Project Revenue Fund shall be set aside by the District at the following times in the following respective special funds (each of which is established under the Installment Purchase Contract and each of which is held by the District and each of which the District agrees and covenants to maintain so long as any Domestic Water Installment Payments remain unpaid) in the following order of priority:

(i) Installment Payment Fund, including the Series G Domestic Water Installment Payment Account within such fund (to be held by the District); and

(ii) Series 2013G Reserve Fund (to be held by the Depository).

All moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes authorized in the Installment Purchase Contract.

Installment Payment Fund. On or before the last day of each month, the District shall, from the moneys in the Domestic Water Project Revenue Fund pay, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, for deposit in the Series G Domestic Installment Account, within the Installment Payment Fund, (i) the amount of 1/6 of the aggregate amount of interest becoming due on the Series G Domestic Water Installment Payments during the next succeeding six months; and (ii) for deposit into such fund or account as may be provided therefor, in the case of Domestic Water Bonds or Domestic Water Installment Payments other than the Series G Domestic Water Installment Payments, a sum equal to the amount of 1/6 of the aggregate amount of interest becoming due on such Domestic Water Contracts and Domestic Water Bonds during the next succeeding six months, plus (iv) 1/12 of the aggregate amount of principal becoming due (due to maturity, mandatory sinking fund payment or mandatory prepayment or otherwise) on the Series G Domestic Water installment Payments, Domestic Water Contracts and Domestic Water Bonds during the next succeeding twelve months, but excluding from such amounts of principal any series or issue of such Domestic Water Bonds or Domestic Water Contracts having 25% or more of the aggregate principal amount of such series or issue due in any one year if such series or issue is secured by the proceeds of a letter of credit, revolving credit agreement or similar credit arrangement; provided, that, so long as the payments to be made by the Series 2007F Counterparty pursuant to the Series 2007F Swap Contract are being made on a full and timely basis, interest then accruing on the unpaid balance of the principal amount of the Series G Domestic Water Installment Payments shall be assumed to the fixed rate of interest payable by the Authority under the Series 2007F Swap Contract.

No deposit need be made in the Series G Domestic Water Installment Payment Account if each amount available and contained in each such account is at least equal to the amount of interest becoming due under the Installment Purchase Contract on the next succeeding Domestic Water Installment Payment Date (computed for purposes of this paragraph in the manner specified in the preceding paragraph), plus the amount of principal becoming due under the Installment Purchase Contract on the next succeeding Domestic Water Installment Payment Date for each such series.

All moneys in the Series G Domestic Water Installment Payment Account shall be withdrawn by the District solely for the purpose of paying the Series G Domestic Water Installment Payments to the Authority as they become due and payable in accordance with the Installment Purchase Contract; provided, however, that such amounts as the District determines in the Tax Certificate to be necessary to comply with the Installment Purchase Contract may be withdrawn by the District and transferred and applied pursuant thereto.

On the last day of each month, all remaining moneys in the Domestic Water Project Revenue Fund shall be applied to pay any amounts due and owing to the Bond Insurer under the Municipal Bond Insurance Policy or the Reserve Policy.

Series 2013G Reserve Fund. The Authority, for the benefit of the District, shall cause to be deposited with the Depository into the Series 2013G Reserve Fund the Reserve Policy in a face amount, to be calculated by the District and filed with the Trustee, equal to the Series 2013G Reserve Fund Requirement. On or before the last day of each month, the District shall, from the remaining moneys in the Domestic Water Project Revenue Fund, thereafter transfer, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, to the Depository for deposit in the Series 2013G Reserve Fund in the case of the Series G Domestic Water Installment Payments and deposit into such reserve fund or account as may be provided therefor, in the case of Domestic Water Bonds or Domestic Water Installment Payments other than the Series G Domestic Water Installment Payments, that sum, if any, equal to one-twelfth (1/12) of the amount necessary to restore the Series 2013G Reserve Fund to an amount equal to the Series 2013G Reserve Fund Requirement or such other reserve fund or account to an amount equal to the amount required to be maintained therein on the next succeeding September 1 or to pay Policy Costs pursuant to subsection (i) below; provided,

however, the District may substitute or otherwise provide for the Series 2013G Reserve Fund or such other fund or account by a policy of insurance or surety bond issued by a municipal bond insurance company, the claims paying ability of which is rated at the time of deposit thereof into the Series 2013G Reserve Fund not lower than the then rating on the Series 2013G Water Bonds by any of Moody's, S&P or Fitch, or by letter of credit or other credit facility issued by a bank or other financial institution the obligations of which are rated at the time of deposit thereof into the Series G Reserve Fund not lower than the then rating on the Series 2013G Water Bonds by any of Moody's, S&P or Fitch, in each case, if such rating agency is then rating obligations of the District.

No transfer need be made in the Series 2013G Reserve Fund if the amount available and contained therein is at least equal to the Series 2013G Reserve Fund Requirement.

If at any time the amount available and contained in the Series 2013G Reserve Fund exceeds the Series 2013G Reserve Fund Requirement and if the District is not then in default under the Installment Purchase Contract, the Depository shall withdraw the amount of such excess from the Series 2013G Reserve Fund and shall deposit such amount in the Revenue Fund, and for this determination the Depository shall make a valuation of the Series 2013G Reserve Fund on or before September 1 in each year. Except for such withdrawals, all moneys in the Series 2013G Reserve Fund shall be used and withdrawn by the Depository solely for the purpose of making the Series G Domestic Water Installment Payments in the event that no other moneys of the District are available therefor.

The following provisions shall govern notwithstanding anything to the contrary set forth in the Installment Purchase Contract.

(i) The Authority and the District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by Assured Guaranty Municipal Corp. ("AGM") and shall pay interest thereon from the date of payment by AGM at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2013G Water Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as AGM shall specify. If the interest provisions of this subsection (i) shall result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Installment Purchase Contract, then all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice between or by any party to the Installment Purchase Contract, be applied as additional interest for any later periods of time when amounts are outstanding under the Installment Purchase Contract to the extent that interest otherwise due under the Installment Purchase Contract for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess shall be applied upon principal immediately upon receipt of such moneys by AGM, with the same force and effect as if the Authority and the District had specifically designated such extra sums to be so applied and AGM had agreed to accept such extra payment(s) as additional interest for such later periods.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to AGM shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to AGM on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs shall be secured by a valid lien on all revenues and other collateral pledged as security for the Series 2013G Water Bonds (subject only to the priority of payment provisions set forth under the Installment Purchase Contract).

All cash and investments in the Series 2013G Reserve Fund shall be transferred by the Trustee to the Series G Domestic Water Interest Account and Principal Payment Account of the Revenue Fund for payment of debt

service on the Series 2013G Water Bonds before any drawing may be made on the Reserve Policy or any other credit facility credited to the Series 2013G Reserve Fund in lieu of cash (“Credit Facility”). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Series 2013G Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Series 2013G Reserve Fund. For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(ii) If the Authority and the District shall fail to pay any Policy Costs in accordance with the requirements of subsection (i) above, AGM shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Installment Purchase Contract other than (A) acceleration of Series G Domestic Water Installment Payments or (B) remedies which would adversely affect owners of the Series 2013G Water Bonds.

(iii) The Installment Purchase Contract shall not be discharged until all Policy Costs owing to AGM shall have been paid in full. The Authority’s obligation to pay such amounts shall expressly survive payment in full of the Series 2013G Water Bonds.

On the last day of each month, all remaining moneys in the Domestic Water Project Revenue Fund shall be applied to pay the portion of the Series 2007F Swap Contract Payments constituting termination payments, if any, and thereafter all remaining moneys in the Domestic Water Project Revenue Fund shall be deposited by the District in the General Fund for expenditure for any lawful purpose of the District.

Investments. Any moneys held by the District in the Domestic Water Project Revenue Fund and in the Installment Payment Fund shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement under the Installment Purchase Contract. Any moneys held by the Depository in the Series 2013G Reserve Fund shall be invested by the Depository in Permitted Investments, upon the written request of the District or the Authority or upon telephone request of the District or the Authority promptly confirmed in writing; provided that absent directions from the District as to investment of funds, the Depository shall invest in Permitted Investments described in clause (D) of the definition thereof. All investment earnings derived from the investment of funds on deposit in any fund or account created under the Installment Purchase Contract shall be retained in such fund or account, or otherwise applied in accordance with the Written Request of the District or the Authority.

Covenants of the District

Compliance with Installment Purchase Contract and Ancillary Agreements. The District will punctually pay the Series G Domestic Water Installment Payments in strict conformity with the terms of the Installment Purchase Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by it, and will not terminate the Installment Purchase Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Domestic Water Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Contract required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the District or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement and the Treatment and Delivery Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the Installment Purchase Contract, the Treatment and Delivery Agreement and the Trust Agreement that, subject to the Installment Purchase Contract, each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the purchase of and payment for the Domestic Water Project Phase Two by the District pursuant to, and in accordance with, and as authorized under the Law.

Against Encumbrances. The District will not make any pledge of or place any lien on the Treatment and Delivery Revenues except as may be required to complete the Domestic Water System.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Domestic Water System or any part thereof essential to the proper operation of the Domestic Water System or to the maintenance of the Treatment and Delivery Revenues. The District will not enter into any agreement or lease which impairs the operation of the Domestic Water System or any part thereof necessary to secure adequate Treatment and Delivery Revenues for the payment of the Domestic Water Installment Payments, or which would otherwise impair the rights of the Authority with respect to the Treatment and Delivery Revenues or the operation of the Domestic Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Domestic Water System, or any material or equipment which has become worn out, may be sold at not less than the market value thereof if such sale will not reduce the Treatment and Delivery Revenues and if the proceeds of such sale are deposited in the Revenue Fund.

Against Competitive Facilities. The District will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water system competitive with the Domestic Water System.

Against Federal Income Taxation. The District will not directly or indirectly use or permit the use of any proceeds of the obligation provided in the Installment Purchase Contract or any other funds of the District or take or omit to take any action that would cause such obligation to be an "arbitrage bond" within the meaning of Section 148(a) of the Code or a "federal-guaranteed obligation" within the meaning of Section 149(b) of the Code or a "private activity bond" as described in Section 141 of the Code. The District will not allow 10% or more of the proceeds of the obligations provided in the Installment Purchase Contract to be used in the trade or business of any nongovernmental units and will not loan 5% or more of the proceeds of the obligations provided therein to any nongovernmental units.

To that end, as long as any Series G Domestic Water Installment Payments are unpaid, the District will comply with all requirements of such sections of the Code to the extent applicable to the obligations provided in the Installment Purchase Contract. In the event that at any time the District is of the opinion that it is necessary to restrict or to limit the yield on the investment of any moneys held by the District under the Installment Purchase Contract or by the Trustee under the Trust Agreement, the District shall so instruct the Trustee in writing, and the Trustee shall act in accordance with such instructions.

The District and the Authority covenant that they will at all times do and perform all acts necessary or desirable in order to assume that the interest component of the Series G Domestic Water Installment Payments will not be included in gross income of the holders of the Certificates for federal income tax purposes and will take no action that would result in such interest being so included. The District covenants to abide by all of the covenants, terms and conditions relating to the District set forth in the Trust Agreement.

Notwithstanding any provision of the Installment Purchase Contract, if the District receives an opinion of Bond Counsel that any specified action required under the tax covenants of the Installment Purchase Contract is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Series G Domestic Water Installment Payments or the Series 2013G Water Bonds, the District may conclusively rely on such opinion in complying with the requirements of tax covenants of the Installment Purchase Contract, and the covenants thereunder shall be deemed to be modified to that extent.

Prompt Acquisition and Construction. The District will take all necessary and appropriate steps as agent of the Authority to acquire and construct the Domestic Water Project with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Maintenance and Operation of the Domestic Water System; Budgets. The District will maintain and preserve the Domestic Water System in good repair and working order at all times and will operate the Domestic Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Domestic Water System as they become due and payable. On or before the first date of each Fiscal Year (commencing January 1, 2014), the District will adopt and file with the Authority a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs of the Domestic Water System. Any budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the District with the Authority.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Treatment and Delivery Revenues or any part thereof or on any funds in the hands of the District prior or superior to the lien of the Domestic Water Installment Payments or which might impair the security of the Domestic Water Installment Payments.

Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Domestic Water System and all other contracts affecting or involving the Domestic Water System to the extent that the District is a party thereto.

Insurance. (a) The District will procure and maintain or cause to be procured and maintained insurance on the Domestic Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Domestic Water System) as are usually covered in connection with domestic water systems similar to the Domestic Water System so long as such insurance is available at reasonable costs from reputable insurance companies. In the event of any damage to or destruction of the Domestic Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damages or destroyed portion of the Domestic Water System. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Domestic Water System shall be free and clear of all claims and liens.

If such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds shall be applied in part to the prepayment of Series G Domestic Water Installment Payments as provided the Installment Purchase Contract and in part to such other fund or account as may be appropriate and used for the retirement of Domestic Water Contracts in the same proportion that the aggregate unpaid principal balance of Series G Domestic Water Installment Payments then bears to the aggregate unpaid principal amount of such Domestic Water Contracts. If such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, are sufficient to enable the District to retire the entire obligation evidenced by the Installment Purchase Contract prior to the final due date of the Series G Domestic Water Installment Payments as well as the entire obligations evidenced by Domestic Water Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Domestic Water System, and thereupon such Net Proceeds shall be applied to the prepayment of Series G Domestic Water Installment Payments as provided in the Installment Purchase Contract and to the retirement of such Domestic Water Contracts.

(b) If the conditions set forth in subparagraph (a) above are not met, then such Net Proceeds, to the extent such Net Proceeds are derived from a loss or claim with respect to the Domestic Water System, shall be applied in part to the prepayment of the Series G Domestic Water Installment Payments and the Series 2013G Water Bonds as provided in the Installment Purchase Contract, and in part to such other fund or account as may be appropriate and used for the retirement of the other Domestic Water Bonds and other Domestic Water Contracts in the same proportion that the aggregate unpaid principal balance of such Domestic Water Bonds and Domestic Water

Contracts then bears to the aggregate unpaid principal balance of the Series G Domestic Water Installment Payments.

(c) The District will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with domestic water systems similar to the Domestic Water System; provided that any insurance required pursuant to the Installment Purchase Contract may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with domestic water systems similar to the Domestic Water System.

All policies of insurance required to be maintained in the Installment Purchase Contract shall provide that the Authority and the Trustee be named as additional insured parties and will be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Protection of Security and Rights of the Authority. The District will preserve and protect the security of the Installment Purchase Contract and the rights of the Authority to the Series G Domestic Water Installment Payments thereunder and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Domestic Water System or any part thereof or the Treatment and Delivery Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Domestic Water System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Amount of Rates and Charges. The District will fix, prescribe and collect rates and charges for the Domestic Water Service which are reasonably fair and nondiscriminatory and which, together with all other lawfully available funds of the District, will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Domestic Water System for such Fiscal Year; and (ii) debt service on all Domestic Water Bonds and all Domestic Water Installment Payments for such Fiscal Year, in each case only to the extent they are then unpaid or are not discharged in accordance with their respective terms.

Special Appropriation. In the event that Revenues (as defined in the Trust Agreement) are insufficient to pay in full any amount then due and payable with respect to the Series 2013G Water Bonds, an Authorized District Representative (as defined in the Trust Agreement) shall submit to the Board of Directors of the District a special budget item requesting a special appropriation from the Board of Directors of the District of the amount of such insufficiency; provided, however, that the Board of Directors of the District shall have absolute discretion in determining whether such a special appropriation shall be made, and a determination not to make a special appropriation shall not in and of itself constitute an Event of Default.

Eminent Domain Proceeds. If all or any part of the Domestic Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the District obtains and files with the Authority an Engineer's Report showing (i) the estimated loss of annual Treatment and Delivery Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Domestic Water System proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Treatment and Delivery Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such Engineer's Report filed with the Authority, determines that the estimated additional annual Treatment and Delivery Revenues will sufficiently offset the estimated loss of annual Treatment and Delivery Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations under the Installment Purchase Contract will not be substantially impaired (which determination shall be final and conclusive) then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such Engineer's Report and such Net Proceeds shall be applied for the payment of

the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose shall be deposited in the Domestic Water Project Revenue Fund.

(b) If the conditions set forth in paragraph (a) above are not met, then such Net Proceeds shall be applied in part to the prepayment of Domestic Water Installment Payments as provided in the Installment Purchase Contract and in part to such other fund or account as may be appropriate and used for the retirement of Domestic Water Bonds and Domestic Water Contracts in the same proportion which the aggregate unpaid principal balance of Domestic Water Installment Payments then bears to the aggregate unpaid principal amount of such Domestic Water Bonds and Domestic Water Contracts.

Assignment of Authority's Rights. As security for the payment of the Domestic Water Bonds, the Authority will assign to the Trustee the Authority's rights under the Installment Purchase Contract, including the right to receive payments thereunder, and the Authority directs the District to make the payments required thereunder directly to the Trustee. The District consents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the District and the Authority or the Trustee.

Events of Default and Remedies of the Authority

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say:

(1) if default shall be made in the due and punctual payment of any Domestic Water Installment Payment or any Domestic Water Contract or Domestic Water Bond when and as the same shall become due and payable;

(2) if default shall be made by the District in the performance of any of the other agreements or covenants required in the Installment Purchase Contract to be performed by it, and such default shall have continued for a period of 60 days after the District shall have been given notice in writing of such default by the Authority; or

(3) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default specified in clause (1) above, the Authority shall, and for any other such Event of Default the Authority may, by notice in writing to the District, declare the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Installment Purchase Contract to the contrary notwithstanding. The Installment Purchase Contract, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Domestic Water Installment Payments or the unpaid payment of any other Domestic Water Contract or Domestic Water Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Domestic Water Installment Payments or such Domestic Water Contract or Domestic Water Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Domestic Water Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the District, may rescind

and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All moneys in the Series G Domestic Water Installment Payment Account of the Installment Payment Fund upon the date of the declaration of acceleration by the Authority as provided in the Installment Purchase Contract and all Treatment and Delivery Revenues thereafter received shall be applied in the following order:

First, to the payment, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, of the fees, costs and expenses of the Trustee, if any, in carrying out the provisions of the Installment Purchase Contract, including reasonable compensation to its accountants and counsel; and

Second, to the payment of the entire principal amount of the unpaid Domestic Water Installment Payments and the unpaid principal amount of all Domestic Water Bonds and Domestic Water Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Domestic Water Installment Payments and such Domestic Water Bonds and Domestic Water Contracts if paid in accordance with their respective terms.

Third, to the payment of any amounts due and owing to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy.

Fourth, to the payment of the portion of Domestic Water Swap Installment Payments constituting termination payments, if any.

Other Remedies of the Authority. The Authority shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or such person's duties under the Law and the agreements and covenants required to be performed by it or such person contained in the Installment Purchase Contract;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

(c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Non-Waiver. Nothing in the Installment Purchase Contract shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Domestic Water Installment Payments to the Authority at the respective due dates or upon prepayment from the Treatment and Delivery Revenues and the other funds in the Installment Purchase Contract pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied therein.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the Law or by the Installment Purchase Contract may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the District and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Installment Purchase Contract conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given thereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

Discharge of Obligations

Discharge of Obligations. When

(a) all or any portion of not less than \$100,000 of the Domestic Water Installment Payments shall have become due and payable in accordance with the Installment Purchase Contract or a written notice of the District to prepay all or any portion of not less than \$100,000 of the Domestic Water Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Domestic Water Installment Payment Date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of not less than \$100,000 of the Domestic Water Installment Payments sufficient moneys and Permitted Investments, issued by the United States of America and described in clause (i) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Domestic Water Installment Payments to their respective Domestic Water Installment Payment Dates or to their prepayment date or dates as the case may be;

(c) provision shall have been made for paying all fees and expenses of the Trustee so long as such Domestic Water Installment Payments shall remain unpaid, and

(d) provision shall have been made for paying all amounts due to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy, and

then and in that event, if an opinion of Special Counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to the Installment Purchase Contract shall not adversely affect the exclusion of the interest portion of the Domestic Water Installment Payments from gross income for federal income tax purposes, the right, title and interest of the Authority in the Installment Purchase Contract and the obligations of the District thereunder shall, with respect to all or such portion of the Domestic Water Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Domestic Water Installment Payments). In such event, upon request of the District, the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the District, as an overpayment of Domestic Water Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Purchase Contract other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Domestic Water Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Domestic Water Installment Payments and shall be applied by the Trustee to the payment of the Domestic Water Installment Payments of the District.

SUMMARY OF THE TRUST AGREEMENT

Revenues

Pledge of Revenues. Pursuant to the Trust Agreement, all Revenues and any other amounts (including proceeds of the sale of the Series 2013G Water Bonds) held by the Trustee in any fund or account established thereunder (other than amounts on deposit in the Rebate Fund are irrevocably pledged to the payment of the interest on and principal of the Series 2013G Water Bonds as provided therein, and the Revenues shall not be used for any other purpose while any of the Series 2013G Water Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. Such pledge shall constitute a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Series 2013G Water Bonds in accordance with the terms of the Trust Agreement.

Receipt and Deposit of Revenues. (a) The Authority agrees and covenants that all Revenues when and as received shall be received by the Authority in trust for the benefit of the Holders and shall be deposited when and as received by the Authority in the Series 2013G Revenue Fund. All Revenues shall be accounted for through and held in trust in the Series 2013G Revenue Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only as provided in the Trust Agreement. All Revenues shall be allocated, applied and disbursed solely for the purposes and uses set forth in the Trust Agreement, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

(b) Subject to the Installment Purchase Contract and the Trust Agreement, all money in the Series 2013G Revenue Fund shall be set aside by the Trustee in the following respective special accounts within the Series 2013G Revenue Fund in the following order of priority:

(i) Interest Account. The Trustee on or before the Interest Payment Date shall deposit in the Interest Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of interest coming due and payable on all Outstanding Series 2013G Water Bonds on such Interest Payment Date. Except as provided the Installment Purchase Contract and Trust Agreement, moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series 2013G Water Bonds when due and payable.

(ii) Principal Account. The Trustee on or before September 1 of each year shall deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to the aggregate principal amount of all Outstanding Series 2013G Water Bonds becoming due and payable on such September 1, plus the aggregate amount of all sinking fund payments required to be made with respect to the Series 2013G Water Bonds that are term bonds. Except as provided in the Installment Purchase Contract and the Trust Agreement, moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Series 2013G Water Bonds when due and payable, provided that all sinking fund payments deposited into the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming or paying at maturity the Series 2013G Water Bonds for which such sinking fund payment was made.

(iii) Redemption Account. The Trustee, on the date specified in the Written Request of the District filed with the Trustee pursuant to the Installment Purchase Contract at the time that any prepaid Installment Payment is paid to the Trustee, shall deposit in the Redemption Account that amount of money representing the portion of the Installment Payments designated as prepaid Installment Payments. Except as provided in the Installment Purchase Contract and Trust Agreement, moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of, redemption premiums, if any, and interest on the Series 2013G Water Bonds to be redeemed.

(iv) Surplus Account. The Trustee, on or before September 1 of each year, beginning on September 1, 2014, shall deposit in the Surplus Account all money remaining in the Series 2013G Revenue Fund after the deposits, if any, required by the Installment Purchase Contract and the Trust Agreement and subsections (i), (ii) and

(iii) of this section have been made. Amounts on deposit in the Surplus Fund shall initially be applied to pay any amounts due and owing to the Bond Insurer pursuant to the Municipal Bond Insurance Policy or the Reserve Policy. Once such amounts have been made, then beginning on September 2 of each year, beginning on September 2, 2014, the Trustee, if the District is not then in default under the Trust Agreement and the Installment Purchase Contract, shall disburse the money in the Surplus Account to the District unless any money in the Surplus Account is or will be required for the payment of the principal of or interest on the Series 2013G Water Bonds on the next succeeding Interest Payment Date (assuming for the purpose of such determination that the District shall pay when due all Installment Payments required by the Installment Purchase Contract), in which event such money shall be held in the Surplus Account for such purpose.

Project Fund

The Trustee shall establish and maintain the Modesto Irrigation District Domestic Water Project Fund, Series 2013G. The moneys in the Project Fund shall be held by the Trustee in trust and applied to the payment of the costs of issuance of the Series 2013G Water Bonds, fees and premiums for any surety bond, bond insurance or other credit enhancement, the initial fees and expenses of the Trustee, printing costs, legal, accounting and engineering fees and other costs incidental therewith.

Before any payment is made from the Project Fund by the Trustee, there shall be filed with the Trustee a requisition signed by an Authorized District Representative conforming with the requirements of the Trust Agreement, stating with respect to each payment to be made: (1) the requisition number; (2) the name and address of the person to whom payment is due; (3) the purpose for which such payment is to be made; (4) the amount to be paid; (5) that each obligation mentioned therein has been properly incurred and is a proper charge against the Project Fund; and (6) that none of the items for which payment is requested has been previously reimbursed from the Project Fund.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein. Upon receipt of each such requisition, the Trustee shall pay the amount set forth in the Trust Agreement as directed by the terms thereof.

When all costs payable from the Project Fund have been paid, the District shall deliver to the Trustee a Certificate of the District stating that all such costs have been paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such certificate, the Trustee shall transfer any remaining balance in the Project Fund (but less the amount of any such retention) in accordance with a Written Request of the District to be deposited in the Domestic Water Project Revenue Fund established under the Installment Purchase Contract, and the Trustee shall thereupon close the Project Fund.

Investment of Moneys

Subject to the limitations in of the Trust Agreement, any moneys in any of the funds and accounts to be established by the Trustee pursuant to the Trust Agreement shall be invested by the Trustee in Permitted Investments upon the Written Request of the District or upon telephone request of the District promptly confirmed in writing. Moneys in any fund or account (other than the Rebate Fund) shall be invested in Permitted Investments with respect to which payments of principal thereof and interest thereon are scheduled or otherwise payable not later than the date on which it is estimated that such moneys will be required by the Trustee.

For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at the lower of cost (inclusive of all interest accrued but not paid) or market value. Any interest, profit or loss on such investments shall be credited or charged to the respective funds from which such investments are made.

Assignment to Trustee; Enforcement of Obligations

Pursuant to the Trust Agreement, the Authority transfers, assigns and sets over to the Trustee all of the Installment Payments and other Revenues and any and all rights and privileges it has under the Installment Purchase Contract including, without limitation, the right to collect and receive directly all of the Installment Payments and the right to hold and enforce any security interest, and any Installment Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall take all steps, actions and proceedings required to be taken as provided in any opinion of Bond Counsel delivered to it, reasonably necessary to maintain in force for the benefit of the Owners of the Series 2013G Water Bonds the Trustee's rights in and priority to the following security granted to it for the payment of the Series 2013G Water Bonds: (i) the Trustee's rights as assignee of the Installment Payments and other Revenues and (ii) all other rights and privileges under the Installment Purchase Contract and as beneficiary of any other rights to security for the Series 2013G Water Bonds which the Trustee may receive in the future.

Covenants of the Authority and the Trustee

Punctual Payment and Performance. The Authority will punctually pay out of the Revenues the interest on and the principal of and redemption premiums, if any, to become due on every Series 2013G Water Bond issued under the Trust Agreement in strict conformity with the terms of the Trust Agreement and of the Series 2013G Water Bonds, and will faithfully observe and perform all of the agreements and covenants to be observed or performed by the Authority contained in the Trust Agreement and in the Series 2013G Water Bonds.

Compliance with Installment Purchase Contract and Treatment and Delivery Agreement. The District and the Authority will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract and in the Treatment and Delivery Agreement required to be complied with, kept, observed and performed by the District and the Authority, and the Trustee will, to the extent required under the Trust Agreement, enforce such document against the District in accordance with its terms.

The Authority will not alter, amend or modify the Installment Purchase Contract without the prior written consent of the Trustee and the Bond Insurer. Such consent of the Trustee shall be given only (i) if the Trustee receives an opinion of Bond Counsel which states that such alterations, amendments or modifications will not result in any material impairment of the security given or intended to be given for the payment of the Installment Payments, or (ii) if the Trustee first obtains the written consents of the Owners of at least 60% in aggregate principal amount of the Series 2013G Water Bonds then Outstanding to such alterations, amendments or modifications; provided, however, that the tax covenants of the Installment Purchase Contract may be amended upon receipt of an opinion of Bond Counsel that any specified action required thereunder is no longer required, or some further or different action is required, to maintain the exclusion from federal income tax of interest on the Series 2013G Water Bonds.

The District will not alter, amend or modify the Treatment and Delivery Agreement without the prior written consent of the Trustee and the Bond Insurer. Such consent of the Trustee shall be given only (i) if the Trustee receives a Certificate of the District to the effect that such alterations, amendments or modifications will not result in any material impairment of the security given or intended to be given for the payment of the Installment Payments, or (ii) if the Trustee first obtains the written consent of the Owners of at least 60% in aggregate principal amount of the Series 2013G Water Bonds then Outstanding to such alterations, amendments or modifications.

Observance of Laws and Regulations. The Authority and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Tax Covenants. The District and the Authority each covenant that it will not take any action, or fail to take any action, if any such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Series 2013G Water Bonds under Section 103 of the Code.

Against Encumbrances. So long as any Series 2013G Water Bonds are Outstanding, the Authority will not create or suffer to be created any pledge of or lien on the Installment Payments or other Revenues other than the pledge and lien of the Trust Agreement, and will not issue any bonds, notes or obligations payable from the Installment Payments or other Revenues or secured by a pledge of or charge or lien upon the Installment Payments or other Revenues except the Series 2013G Water Bonds.

Prosecution and Defense of Suits. The Authority will defend against every action, suit or other proceeding at any time brought against the Trustee or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Installment Payments or other Revenues or involving the rights of the Trustee or any Owner under the Trust Agreement; provided, however, that the Trustee or any Owner at its or such Owner's election may appear in and defend any such action, suit or other proceeding. The Authority will indemnify and hold harmless the Trustee and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will indemnify and hold harmless the Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights under the Trust Agreement or under the Series 2013G Water Bonds, provided that such litigation shall be concluded favorably to such Owners' contentions in the Trust Agreement.

Continuing Disclosure. Neither the District nor the Authority shall have any responsibility or liability to the Owners of the Series 2013G Water Bonds or any other person with respect to the continuing disclosure requirements contained in the Continuing Disclosure Agreement. The Trustee covenants and agrees in the Trust Agreement that it will comply with and carry out all of the provisions applicable to the Trustee of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the City or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2013G Water Bonds, shall) or any Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Continuing Disclosure Agreement or to cause the Trustee to comply with its obligations under the Trust Agreement.

Events of Default and Remedies

Events of Default and Acceleration of Maturities. If one or more of the following events (in the Trust Agreement called "Events of Default") shall happen, that is to say:

(a) if default shall be made in the due and punctual payment of the interest on any Series 2013G Water Bond when and as the same shall become due and payable;

(b) if default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Series 2013G Water Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Authority in the performance of any of the other agreements or covenants required in to be performed by the Authority, and such default shall have continued for a period of 60 days after the Authority shall have been given notice in writing of such default by the Trustee;

(d) if an Event of Default (as that term is defined in the Installment Purchase Contract) shall happen;
or

(e) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court

of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default the Trustee may, and shall, at the direction of the Owners of not less than a majority in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, by notice in writing to the Authority, declare the principal of all Series 2013G Water Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Series 2013G Water Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Owners of any such Event of Default which is continuing. Such notice shall include a reference to or a summary of the rights and remedies available to the Owners as set forth in the Trust Agreement.

This provision, however, is subject to the condition that if at any time after the principal of the Series 2013G Water Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the Authority shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Series 2013G Water Bonds and all principal of the Series 2013G Water Bonds matured prior to such declaration, with interest at the rate borne by such Series 2013G Water Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee (including but not limited to the fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Series 2013G Water Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Owners of not less than a majority in aggregate principal amount of Series 2013G Water Bonds then Outstanding, by written notice to the Authority and to the Trustee, may on behalf of the Owners of all the Series 2013G Water Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default shall happen and be continuing, the Trustee in its discretion may, and shall, at the direction of the Owners of a majority in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, proceed to protect or enforce its rights or the rights of the Owners of Series 2013G Water Bonds under the Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the Trust Agreement.

Actions by Trustee as Attorney-in-Fact. Any action, proceeding or suit which any Owner shall have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Owners, whether or not the Trustee is an Owner, and the Trustee is appointed by the Trust Agreement (and the successive Owners, by taking and holding the Series 2013G Water Bonds issued thereunder, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Owners for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Owners as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

Limitation on Owners' Right to Sue. No Owner of any Series 2013G Water Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least a majority in aggregate principal amount of all the Series 2013G Water Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Trust Agreement or to institute such suit, action or proceeding in its own name; (c) said Owners shall have tendered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or

omitted to comply with such request for a period of 60 days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

No Liability by the District to the Owners. Except for the payment when due of the Installment Payments and the performance of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or in the Trust Agreement, the District shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, issuance, execution, delivery or transfer of the Series 2013G Water Bonds or to the disbursement of the Revenues by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by the District or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or in the Trust Agreement.

The Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

No provision of the Trust Agreement shall be construed to relieve the Trustee from liability for its own negligent action or negligent failure to act or willfull misconduct, except that:

(a) Prior to such an Event of Default under the Trust Agreement and after the curing of all Events of Default which may have occurred,

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of the Trust Agreement, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed in the Trust Agreement, upon any certificate or opinion furnished to the Trustee conforming to the requirements of the Trust Agreement; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(1) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(2) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority, or such larger percentage as may be required under the Trust Agreement, in aggregate principal amount of the Series 2013G Water Bonds at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Trust Agreement.

None of the provisions contained in the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Qualifications of Trustee. There shall at all times be a trustee under the Trust Agreement which shall be a bank, trust company or national association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such corporations or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Trust Agreement, the Trustee shall resign immediately in the manner and with the effect specified therein.

Resignation and Removal of Trustee and Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice to the Authority and by giving to the Owners Notice by Mail. Upon receiving such notice of resignation, the Authority, with the advice and consent of the District, shall promptly appoint a successor trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee or any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months may, on behalf of itself and others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor trustee.

(b) In case at any time either of the following shall occur:

(1) the Trustee shall cease to be eligible in accordance with the provisions the Trust Agreement and shall fail to resign after written request therefor by the Authority or by any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months, or

(2) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Authority may remove the Trustee and appoint a successor trustee by an instrument in writing, or any Owner who has been a bona fide Owner of a Series 2013G Water Bond for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee and appoint a successor trustee.

(c) The Authority or Owners of a majority in aggregate principal amount of the Series 2013G Water Bonds at the time Outstanding may at any time remove the Trustee and appoint a successor trustee by an instrument or concurrent instruments in writing signed by the Authority or such Owners, as the case may be.

Modification of Trust Agreement

Amendment or Supplement of Trust Agreement. The Trust Agreement and the rights and obligations of the Authority, the District, the Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding when the written consents of the Owners of 60% in aggregate principal amount of the Series 2013G Water Bonds then Outstanding, exclusive of Series 2013G Water Bonds disqualified as provided in the Trust Agreement, and the prior written consent of the Bond Insurer are filed with the Trustee. No such amendment or supplement shall (1) extend the stated payment date of any Series 2013G Water Bond, or reduce the rate of interest thereon, or extend the time of payment of such interest, or reduce the amount of principal thereof, or reduce any redemption premium thereon, without the prior written consent of the Owner of the Series 2013G Water Bond so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment or supplement to the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee or the Bond Insurer without their respective prior written consents thereto.

The Trust Agreement and the rights and obligations of the Authority, the District, the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving opinion of Bond Counsel and only for any one or more of the purposes set forth in the Trust Agreement.

Defeasance

Discharge of the Trust Agreement. When the obligations of the District under the Installment Purchase Contract shall cease pursuant to the Installment Purchase Contract (except for the right of the Trustee and the obligation of the District to have the money and Permitted Investments mentioned in the Trust Agreement applied to the payment of Installment Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate and become void except for the right of the Owners and the obligation of the Trustee to apply such moneys and Permitted Investments to the payment of the Series 2013G Water Bonds as set forth in the Trust Agreement and the right of the Trustee to collect any fees or expenses due thereunder, and the Trustee shall turn over to the District, as an overpayment of Installment Payments, any surplus in the Series 2013G Revenue Fund or the Project Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Series 2013G Water Bonds at maturity or on redemption, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Series 2013G Water Bonds, and after such payment, the Trust Agreement shall become void.

Defeasance Provisions Relating to the Bond Insurer with Respect to Insured 2013 G Water Bonds. Notwithstanding anything to the contrary in the provisions of the Trust Agreement relating to defeasance, only (1) cash, (2) non-callable direct obligations of the United States of America (“Treasury”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Bond Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (5) subject to the prior written consent of the Bond Insurer, securities eligible for “AAA” defeasance under then existing criteria of S&P, or any combination thereof, shall be used to effect defeasance of the Insured Series 2013G Water Bonds unless the Bond Insurer otherwise approves.

To accomplish defeasance of any Insured Series 2013G Water Bonds, the District shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer (“Accountant”) verifying the sufficiency of the escrow established to pay the Insured Series 2013G Water Bonds in full or in part on the maturity or redemption date (“Verification”), (ii) an escrow agreement (which shall be acceptable in form and substance to the Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Insured Series 2013G Water Bonds are no longer “Outstanding” under the Trust Agreement and (iv) a certificate of discharge of the Trustee with respect to the Insured Series 2013G Water Bonds; each Verification and defeasance opinion shall be acceptable in form and

substance, and addressed, to the District, the Trustee and Bond Insurer. The Bond Insurer shall be provided with final drafts of the above referenced documentation not less than 5 Business Days prior to the funding of the escrow.

Insured Series 2013G Water Bonds shall be deemed “Outstanding” under the Trust Agreement unless and until they are in fact paid and retired or the requirements of this section are met.

Provisions Relating to the Municipal Bond Insurance Policy

The following provisions shall govern notwithstanding anything to the contrary set forth in the Trust Agreement.

(a) The Bond Insurer shall be deemed to be the sole holder of the Insured Series 2013G Water Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Series 2013G Water Bonds are entitled to take pursuant to the Trust Agreement pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

(b) The maturity of Insured Series 2013G Water Bonds shall not be accelerated without the consent of the Bond Insurer and in the event the maturity of the Insured Series 2013G Water Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer’s obligations under the Municipal Bond Insurance Policy with respect to such Insured Series 2013G Water Bonds shall be fully discharged.

(c) No grace period for a covenant default shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the Bond Insurer.

(d) The Bond Insurer is hereby deemed to be a third party beneficiary to the Trust Agreement.

Any amendment, supplement, modification to, or waiver of, the Trust Agreement or the Installment Purchase Contract that requires the consent of owners of the Insured Series 2013G Water Bonds or adversely affects the rights and interests of the Bond Insurer shall be subject to the prior written consent of the Bond Insurer.

(e) The rights granted to the Bond Insurer under the Trust Agreement and the Installment Purchase Contract to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Municipal Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer’s contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Insured Series 2013G Water Bonds and such action does not evidence any position of the Bond Insurer, affirmative or negative, as to whether the consent of the holders of the Insured Series 2013G Water Bonds or any other person is required in addition to the consent of the Bond Insurer.

(f) Amounts paid by the Bond Insurer under the Municipal Bond Insurance Policy shall not be deemed paid for purposes of the Trust Agreement and the Insured Series 2013G Water Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Trust Agreement. The Trust Agreement shall not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

(h) The Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Series 2013G Water Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy. Each obligation of the Authority to the Bond Insurer under the Trust Agreement and the Installment Purchase Contract shall survive discharge or termination of such Trust Agreement and the Installment Purchase Contract.

(i) The Authority shall pay or reimburse the Bond Insurer any and all charges, fees, costs and expenses that the Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement,

defense or preservation of any rights or security in the Trust Agreement and the Installment Purchase Contract; (ii) the pursuit of any remedies under the Trust Agreement and the Installment Purchase Contract or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Trust Agreement or the Installment Purchase Contract whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Trust Agreement or the Installment Purchase Contract or the transactions contemplated thereby, other than costs resulting from the failure of the Bond Insurer to honor its obligations under the Municipal Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Trust Agreement or the Installment Purchase Contract.

(j) After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Authority or rebate only after the payment of past due and current debt service on the Insured Series 2013G Water Bonds and amounts required to restore the Series 2013G Reserve Fund to the Series 2013G Reserve Fund Requirement.

(k) The Bond Insurer shall be entitled to pay principal or interest on the Insured Series 2013G Water Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Municipal Bond Insurance Policy) and any amounts due on the Insured Series 2013G Water Bonds as a result of acceleration of the maturity thereof in accordance with the Trust Agreement, whether or not the Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Municipal Bond Insurance Policy) or a claim upon the Municipal Bond Insurance Policy.

(l) The Bond Insurer shall have the right to receive such additional information as it may reasonably request.

(m) The Authority and the District will permit the Bond Insurer to discuss the affairs, finances and accounts of the Authority and the District or any information the Bond Insurer may reasonably request regarding the security for the Insured Series 2013G Water Bonds with appropriate officers of the Authority and the District and will use commercially reasonable efforts to enable the Bond Insurer to have access to the facilities, books and records of the Authority and the District on any business day upon reasonable prior notice.

(n) The Trustee shall notify the Bond Insurer of any failure of the Authority or the District to provide notices, certificates and other information under the transaction documents.

(o) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Trust Agreement would adversely affect the security for the Insured Series 2013G Water Bonds or the rights of the holders of the Insured Series 2013G Water Bonds, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Municipal Bond Insurance Policy.

(p) No contract shall be entered into or any action taken by which the rights of the Bond Insurer or security for or sources of payment of the Insured Series 2013G Water Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Bond Insurer.

(q) There shall be delivered an opinion of Bond Counsel addressed to the Bond Insurer (or a reliance letter relating thereto), or a certificate of discharge of the trustee for the Prior Water Bonds, to the effect that, upon the making of the required deposit to the escrow, the legal defeasance of the Prior Water Bonds shall have occurred.

(r) The Trustee shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of the Installment Purchase Contract and to provide notice to the Bond Insurer in accordance with the terms of the Reserve Policy at least 5 Business Days prior to each date upon which interest or principal is due on the Series 2013G Water Bonds.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Modesto Irrigation District Financing Authority
Modesto, California

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds, Series 2013G
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Irrigation District Financing Authority (the “Issuer”) in connection with the issuance of \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”), issued pursuant to a trust agreement, dated as of August 1, 2013 (the “Trust Agreement”), by and among the Issuer, the Modesto Irrigation District (the “District”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Installment Purchase Contract, the Tax Certificate, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Issuer, the District and the Trustee, certificates of the Issuer, the District, the Trustee, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Installment Purchase Contract and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the Installment Purchase Contract and the Tax

Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Installment Purchase Contract or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer. The Bonds are payable from certain amounts payable by the District under the Installment Purchase Contract and certain other moneys described in the Trust Agreement (as more particularly defined in the Trust Agreement, the "Revenues").

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The Installment Purchase Contract has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer and the District, respectively.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

**SCHEDULE OF INSTALLMENT PAYMENTS AND
CITY PARITY OBLIGATIONS DEBT SERVICE**

Period Ending (June 30)	Series 2007 Installment Payments⁽¹⁾	Series 2013 Installment Payments	Total Installment Payments⁽³⁾	City Parity Obligations Debt Service⁽²⁾	Total Debt Service⁽³⁾
2014	\$ 4,123,147	\$ 1,118,741	\$ 5,241,888	\$ 2,794,333	\$8,036,221
2015	4,123,147	5,974,700	10,097,847	2,808,727	12,906,574
2016	4,123,147	5,972,250	10,095,397	2,661,780	12,757,177
2017	4,123,147	5,971,500	10,094,647	2,535,923	12,630,570
2018	4,123,147	5,965,125	10,088,272	2,518,646	12,606,918
2019	4,123,147	5,957,750	10,080,897	2,530,427	12,611,324
2020	4,123,147	5,958,625	10,081,772	2,513,176	12,594,948
2021	4,123,147	5,957,000	10,080,147	2,492,859	12,573,006
2022	4,123,147	5,942,625	10,065,772	2,503,270	12,569,042
2023	4,123,147	5,939,875	10,063,022	2,507,350	12,570,372
2024	8,304,567	--	8,304,567	4,282,757	12,587,324
2025	8,293,467	--	8,293,467	4,278,858	12,572,325
2026	8,289,159	--	8,289,159	4,266,364	12,555,523
2027	8,315,438	--	8,315,438	4,224,573	12,540,011
2028	8,316,756	--	8,316,756	4,209,127	12,525,883
2029	8,321,460	--	8,321,460	4,181,510	12,502,970
2030	8,309,258	--	8,309,258	4,179,122	12,488,380
2031	8,325,956	--	8,325,956	4,146,026	12,471,982
2032	8,320,888	--	8,320,888	4,127,732	12,448,620
2033	8,343,388	--	8,343,388	4,046,313	12,389,701
2034	8,347,679	--	8,347,679	4,020,879	12,368,558
2035	8,353,539	--	8,353,539	3,993,866	12,347,405
2036	8,365,191	--	8,365,191	3,955,486	12,320,677
2037	8,362,191	--	8,362,191	3,939,540	12,301,731
2038	12,133,514	--	12,133,514	-	12,133,514
Total⁽³⁾	<u>\$169,933,917</u>	<u>\$54,758,191</u>	<u>\$224,692,112</u>	<u>\$83,718,642</u>	<u>\$308,410,756</u>

⁽¹⁾ Assumes an interest rate based upon the Domestic Water Swap Agreement fixed interest rate of (i) 4.378% on the Series 2007 Water Bonds with the stated maturity of September 1, 2027 and (ii) 4.440% on the Series 2007 Water Bonds with the stated maturity of September 1, 2037.

⁽²⁾ Assumes an interest rate on 2008 City Certificates based upon 2008 City Swap Agreement fixed interest rate of 3.4747%. Includes repayment obligations with respect to the CDWR Loan and the ARRA Water Grant. See "THE CITY OF MODESTO MUNICIPAL WATER UTILITY SYSTEM – Outstanding Long-Term Obligations."

⁽³⁾ Totals may not add due to rounding.

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

General

The Depository Trust Company (“DTC”), New York, New York will act as securities depository for the Series 2013 Water Bonds. The Series 2013 Water Bonds will be issued as fully-registered securities certificates registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2013 Water Bond will be delivered for each maturity of the Series 2013 Water Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to DTC’s participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by reference.

Purchases of the Series 2013 Water Bonds under the DTC book-entry system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Water Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2013 Water Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Water Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013 Water Bonds, except in the event that use of the book-entry system for the Series 2013 Water Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 Water Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013 Water Bonds with

DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Water Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Water Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2013 Water Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Water Bonds, such as redemptions, defaults and proposed amendments to the Series 2013 Water Bond documents. For example, Beneficial Owners of Series 2013 Water Bonds may wish to ascertain that the nominee holding the Series 2013 Water Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the bond registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013 Water Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2013 Water Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013 Water Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments with respect to the Series 2013 Water Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owner will be governed by standing instructions and customer practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2013 Water Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2013 Water Bonds are required to be printed and delivered.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interest in the Series 2013 Water Bonds, payment of principal, premium, if any, interest and

other payments on the Series 2013 Water Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Series 2013 Water Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Series 2013 Water Bonds or (b) the Authority determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Series 2013 Water Bonds and use of the book-entry system will be discontinued. If the Authority fails to select a qualified securities depository to replace DTC, the Authority will execute and deliver new Series 2013 Water Bonds in fully registered form in such denominations and numbered in the manner determined by the Trustee and registered in the names of such persons as are requested in a written request of the Authority. The Trustee shall not be required to deliver such new Series 2013 Water Bonds within a period of less than 60 days from the date of receipt of such written request of the Authority. Upon such registration, such persons in whose names the Series 2013 Water Bonds are registered will become the registered owners of the Series 2013 Water Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Series 2013 Water Bonds may be exchanged for a like aggregate principal amount of such Series 2013 Water Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the corporate trust office of the Trustee; (b) the transfer of any Series 2013 Water Bond may be registered on the books maintained by the Trustee under the Trust Agreement for such purpose only upon the surrender thereof to the Trustee together with a duly executed written instrument of transfer in a form approved by the Trustee; (c) for every exchange or transfer of Series 2013 Water Bonds, the Trustee shall require the payment by any owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer; (d) no transfer or exchange of Series 2013 Water Bonds shall be required to be made during the 15-day period prior to any interest payment date or during the period established by the Trustee for selection of Series 2013 Water Bonds for redemption; (e) all interest payments on the Series 2013 Water Bonds will be made by clearinghouse check or draft mailed on the interest payment dates therefor as provided in the Trust Agreement to the person appearing on the registration books maintained by the Trustee or at such other address as has been furnished to the Trustee in writing by such owner; and (f) all payments of principal and any premium on the Series 2013 Water Bond, will be made upon surrender thereof at the corporate trust office of the Trustee.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by the CITY OF MODESTO (the “City”) and WELLS FARGO BANK, NATIONAL ASSOCIATION, in its capacity as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the Modesto Irrigation District Financing Authority (the “Authority”) of its \$43,270,000 Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”). The Bonds are being issued pursuant to a Trust Agreement (the “Trust Agreement”), dated as of August 1, 2013, by and among the Authority, the Modesto Irrigation District (the “District”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth above and in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the City Manager or Director of Finance of the City, or any designee thereof, or such other officer or employee as the City shall designate in writing to the Trustee and the Dissemination Agent from time to time.

“Dissemination Agent” shall mean Wells Fargo Bank, National Association, acting in the capacity of Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Holders” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement for the Bonds dated July 31, 2013.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the end of the nine month following the end of the City’s Fiscal Year (presently March 31 of the subsequent year following the end of the City’s Fiscal Year), commencing with the report for the 2012-13 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit the audited financial statements as soon thereafter as available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City) and the Trustee. If by fifteen (15) business days prior to such date, the Dissemination Agent has not received a copy of the Annual Report from the City, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report of the City has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB (with a copy to the Authority, the District and the City) in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall:

- (i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and
- (ii) to the extent the City has provided the Dissemination Agent with the Annual Report, file a report with the City and (if the Dissemination Agent is not the Trustee, the Trustee) certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

SECTION 4. Content of Annual Reports. The Annual Report of the City shall contain or include by reference the following categories or similar categories of information updated to incorporate information for the most recent fiscal or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the Bonds):

- (i) the Annual Budget of the City;
- (ii) the Comprehensive Annual Financial Report of the City and, to the extent not contained in said Report or if said Report is no longer being prepared, the audited financial statements of the City's Water Utility System for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the audited financial statements of the City's Water Utility System are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;
- (iii) the principal amount of the Bonds and any other Parity Debt outstanding,
- (iv) to the extent not included in the City's audited financial statements, an update for the prior Fiscal Year of the financial information and operating data with respect to the City and the City's Water Utility System of the following type (or information and data comparable thereto) included in the Official Statement relating to the Bonds:
 - (a) the table entitled "CITY WATER UTILITY SYSTEM STATISTICS;"
 - (b) the table entitled "CITY WATER UTILITY SYSTEM – Service Area Total Production (Billion Gallons);"
 - (c) the table entitled "CITY WATER UTILITY SYSTEM – Sale of Water;"
 - (d) the table entitled "CITY WATER UTILITY SYSTEM – Ten Largest Customers;"

- (e) the table entitled “CITY WATER UTILITY SYSTEM – Monthly Single Family Residential Flat Water Rates;”
- (f) the table entitled “CITY WATER UTILITY SYSTEM – Water Rates and Charges Commercial Accounts;”
- (g) the table entitled “CITY WATER UTILITY SYSTEM – Connection Fees for All Users Except Multiple Family Units;”
- (h) the table entitled “CITY WATER UTILITY SYSTEM – Comparison of Average Monthly Water Rates Flat Rate (1” Service);”
- (i) the table entitled “CITY WATER UTILITY SYSTEM – Historical Debt Service Coverage;” and
- (j) the table entitled “CITY WATER UTILITY SYSTEM – Projected Operating Results).”

Any or all of the items listed in (iv) above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB or the SEC. If any document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this section, upon the occurrence of any of the following events (in each case to the extent applicable) with respect to the Bonds, the City shall give, or cause to be given by so notifying the Dissemination Agent in writing and instructing the Dissemination Agent to give, notice of the occurrence of such event, in each case, pursuant to Section 5(c) hereof:

1. principal or interest payment delinquencies;
2. non-payment related defaults, if material;
3. modifications to the rights of the Bondholders, if material;
4. optional, contingent or unscheduled calls, if material, and tender offers;
5. defeasances;
6. rating changes;
7. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with

respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds, if material;
12. bankruptcy, insolvency, receivership or similar proceedings of the City, which shall occur as described below;
13. appointment of a successor or additional trustee or the change of name of a trustee, if material, or;
14. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City's Water Utility System other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

For these purposes, any event described in item 12 of this Section 5(a) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(b) Upon receipt of notice from the City and instruction by the City to report the occurrence of any Listed Event, the Dissemination Agent shall provide notice thereof to the MSRB in accordance with Section 5(c) hereof. In the event the Dissemination Agent shall obtain actual knowledge of the occurrence of any of the Listed Events, the Dissemination Agent shall, immediately after obtaining such knowledge, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(c). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Event shall mean actual knowledge by the Dissemination Agent, if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular

responsibility for the administration of matters related to the Trust Agreement. The Dissemination Agent shall have no responsibility to determine the materiality, if applicable, of any of the Listed Events.

(c) The City, or the Dissemination Agent, if the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, shall file a notice of such occurrence with the MSRB in a timely manner not more than ten (10) business days after the occurrence of the event.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement with respect to the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be Wells Fargo Bank, National Association. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Disclosure Agreement in accordance with its written fee schedule provided to the City, as such fee schedule may be amended from time to time in writing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City that does not adversely affect the Dissemination Agent's rights and obligations) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (i) If the amendment or waiver relates to the provisions of Section 3(a), Section 4 or Section 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;
- (ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

- (iii) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (to the extent indemnified to its satisfaction)) or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

In accepting the appointment under this Disclosure Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the Holders or Beneficial Owners of the Bonds, the City, the Participating Underwriters or any other party or person.

No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent upon thirty (30) days' notice to the City and the Trustee. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City: City of Modesto
1010 10th Street, Suite 5200
Modesto, California 95353
Attention: Director of Finance
Telephone: (209) 577-5371
E-mail: ggenreux@modestogov.com

To the Dissemination Agent: Wells Fargo Bank, National Association
333 Market Street, 18th Floor
San Francisco, CA 94105
Attention: Corporate Trust Department
Telephone: (415) 371-3365
Facsimile: (415) 371-3400
E-mail: kerri.jones@wellsfargo.com

Any person may, by written notice to the other persons listed above, designate a different address, telephone number(s) or other contact to which subsequent notices or communications should be sent. Notices given by electronic means are to be subsequently confirmed by telephone or writing.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City and the Dissemination Agent to the undertaking herein provided.

Dated: August 14, 2013

CITY OF MODESTO

By: _____
Director of Finance

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: CITY OF MODESTO

Name of Issue: DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS,
SERIES 2013G

Date of Delivery: August 14, 2013

NOTICE IS HEREBY GIVEN that the City of Modesto (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Agreement, dated August 14, 2013, between the City and Wells Fargo Bank, National Association, as Dissemination Agent. The City has informed the undersigned that it anticipates that the Annual Report will be filed by _____.

Dated: _____

WELLS FARGO BANK,
NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Authorized Officer

cc: City of Modesto

APPENDIX H

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY
FOR THE INSURED SERIES 2013 WATER BONDS**

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer



TAX CERTIFICATE AND AGREEMENT

by the

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY

and the

MODESTO IRRIGATION DISTRICT

dated as of August 14, 2013

Relating to

\$43,270,000

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds
Series 2013G

TAX CERTIFICATE AND AGREEMENT

THIS TAX CERTIFICATE AND AGREEMENT (this “Tax Certificate”) is made and entered into as of August 14, 2013, by the MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY (the “Authority”) and the MODESTO IRRIGATION DISTRICT (the “District”). The provisions of this Tax Certificate are intended to constitute a contractual obligation of the Authority and the District in consideration for the purchase of and payment for the \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”) by the Underwriter thereof.

WITNESSETH:

WHEREAS, the Authority and the District have determined to refinance certain capital improvements (the “Project”) for the District's Domestic Water Treatment Plant through the issuance of the Bonds; and

WHEREAS, in order to provide monies for such purposes, the Authority and the District will enter into (i) the Installment Purchase Contract, dated as of August 1, 2013 (the “Installment Purchase Contract”) and the District shall make the installment payments thereunder to acquire the Project from the Authority; and (ii) the Trust Agreement, dated as of August 1, 2013 (the “Trust Agreement”) among The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) the District, and the Authority (the “Authority”); and

WHEREAS, the Code (as hereinafter defined) and the regulations and rulings relating thereto impose certain limitations on the use and investment of the Proceeds (as hereinafter defined) of the Bonds and of other moneys relating to the Bonds; and

WHEREAS, the Authority and the District have covenanted in this Tax Certificate to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes; and

WHEREAS, the Authority and the District have determined to enter into this Tax Certificate (including all Exhibits hereto) in order to set forth certain terms and conditions relating to the restrictions on the use and investment of the Proceeds (as hereinafter defined) of the Bonds and of other moneys relating to the Bonds in order that the interest on the Bonds will be excluded from gross income for federal income tax purposes;

NOW, THEREFORE, in consideration of the purchase and payment for the Bonds and other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, and pursuant to Section 5.05 of the Installment Purchase Contract and Section 6.04 of the Trust Agreement, and in part pursuant to Section 1.148-2(b)(2) of the Treasury Regulations, the Authority and the District hereby certify, covenant, represent and agree as follows:

ARTICLE I

IN GENERAL

Section 1.1 General. The Authority and the District are delivering this Tax Certificate (including all Exhibits hereto) to Orrick, Herrington & Sutcliffe LLP, as bond counsel, with the understanding and acknowledgment that Orrick, Herrington & Sutcliffe LLP will rely upon this Tax Certificate (including all Exhibits hereto), in rendering its opinion that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code (as hereinafter defined).

Section 1.2 Delivery of the Bonds. Citigroup Global Markets Inc. is acting as the underwriter (the "Underwriter") with respect to the Bonds. The Authority will receive the purchase price for the issuance of the Bonds on the date hereof.

Section 1.3 Authorization. The Installment Purchase Contract is entered into by the District and the Bonds are issued by the Authority pursuant to the laws of the State of California, including without limitation the California Water Code and the California Government Code (the "Law"), for the purpose of (a) refunding on a current refunding basis the Authority's Domestic Water Project Refunding Revenue Bonds, Series 1998D (the "Prior Bonds"); and (b) pay certain costs of issuance of the Bonds, including Underwriter's discount as well as premiums for bond insurance and a surety bond (the "Bond Insurance" and the "Surety Bond," respectively) to be issued by Assured Guaranty Municipal Corp. (the "Insurer").

Section 1.4 Definitions. Capitalized terms used herein which are not otherwise defined herein shall have the respective meanings set forth in the Trust Agreement and the Installment Purchase Contract or in Sections 103 and 141 through 150 of the Code (as hereinafter defined), as is appropriate in the context in which such terms are used. Unless the context otherwise requires, the following capitalized terms have the following meanings for purposes of this Tax Certificate (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Bona Fide Debt Service Funds" means the Domestic Water Project Revenue Fund, the Installment Payment Fund and the Series G Domestic Water Installment Payment Account, all established under the Installment Purchase Contract and the Domestic Water Project Revenue Fund, the Interest Account (including the Capitalized Interest Subaccount), the Principal Account and the Redemption Account, all established under the Trust Agreement.

"Bond Year" shall mean for federal tax purposes, the period beginning on the Closing Date and each successive one-year period or shorter period thereafter until there are no outstanding Bonds.

"Closing Date" shall mean August 14, 2013, the date of initial issuance and physical delivery of the Bonds.

"Code" shall mean the Internal Revenue Code of 1986 (including amendments thereto).

“Gross Proceeds” shall have the meaning used in Section 1.148-1(b) of the Treasury Regulations, and generally means all Proceeds and all Replacement Proceeds.

“Installment Purchase Contract” shall mean the Installment Purchase Contract, dated as of August 1, 2013, between the District and the Authority.

“Investment Proceeds” shall mean any amounts actually or constructively received from investing Proceeds.

“Investment Property” shall mean any security or obligation, any annuity contract, or any other investment-type property, but does not include any Tax-Exempt Bond unless such obligation is a “specified private activity bond” within the meaning of Section 57(a)(5)(C) of the Code.

“Law” shall have the meaning set forth in Section 1.3 of this Tax Certificate.

“Nonpurpose Investment” shall mean any Investment Property in which Gross Proceeds are invested other than Purpose Investments.

“Opinion of Bond Counsel” shall mean a written opinion of counsel nationally recognized in the area of municipal finance to the effect that such action or inaction described in said opinion will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

“Other Replacement Proceeds” shall have the meaning set forth in Section 1.148-1(c)(4) of the Treasury Regulations. Other Replacement Proceeds arise to the extent that the Authority and the District reasonably expect as of the Closing Date that the term of the Bonds is longer than is reasonably necessary for the governmental purpose of the Bonds and that there will be available amounts created (within the meaning of Treasury Regulation Section 1.148-6(d)(3)(iii)) during the period that the Bonds remain outstanding longer than necessary. Other Replacement Proceeds do not arise for the portion of the Bonds that is to be used to: (i) finance restricted working capital expenditures (within the meaning of Treasury Regulation Section 1.148-1(b)) if that portion of the Bonds is not outstanding longer than two years, (ii) finance or refinance the portion of the Bonds that is to be used to finance or refinance capital Project (within the meaning of Treasury Regulation Section 1.148-1(b)) if that portion of the Bonds does not exceed 120 percent of the average reasonably expected life of the financed capital Project, and (iii) refund a prior issue, provided that the weighted average maturity of such refunding issue does not exceed the remaining weighted average maturity of the prior issue and the issue of which the prior issue is a part satisfies Sections 1.148-1(c)(4)(i)(B)(1) or 1.148-1(c)(4)(i)(B)(2) of the Treasury Regulations.

“Pledge Fund” shall have the meaning set forth in Section 1.148-1(c)(3) of the Treasury Regulations, and generally means any amount that is directly or indirectly pledged to pay principal or interest on the Bonds. A Pledge Fund need not be cast in any particular form but must provide a reasonable assurance to the Bondowners that such amounts will be available to pay principal or interest on the Bonds in the event that the Authority and the District encounters financial difficulties. A pledge to a guarantor of an issue is an indirect pledge to secure payment of principal or interest on an issue. An amount is also treated as pledged to pay principal or

interest on the Bonds if it is held under an agreement to maintain the amount at a particular level for the direct or indirect benefit of the Bondowners, however, such amounts will not be treated as pledged if (i) the Authority and the District or a substantial beneficiary of the Bonds may grant rights in the amount that are superior to the rights of the Bondowners, or (ii) the amount is not in excess of the purpose for which it was established, the required level is tested no more frequently than every six (6) months, and the amount may be spent without any substantial restriction other than a requirement to replenish the amount by the next testing date.

“Prior Bonds” shall mean the Authority’s Domestic Water Project Refunding Revenue Bonds, Series 1998D.

“Private Use” shall have the meaning set forth in Section 2.7 of this Tax Certificate.

“Proceeds” shall mean any Sale Proceeds, and Investment Proceeds as defined in Section 1.148-1(b) of the Treasury Regulations, if any, other than amounts actually or constructively received with respect to a Purpose Investment that are properly allocable to the immaterially higher yield under Section 1.148-2(d) of the Treasury Regulations or to qualified administrative costs recoverable under Section 1.148-5(e) of the Treasury Regulations.

“Purpose Investments” shall mean an investment that is acquired to carry out the governmental purpose of the Bonds.

“Rebate Requirement” shall mean the amount of rebatable arbitrage computed as of the last day of any Bond Year in the manner described in Section 1.148-3 of the Treasury Regulations.

“Replacement Proceeds” shall have the meaning set forth in Section 1.148-1(c)(1) of the Treasury Regulations, and generally means any Sinking Fund, Pledge Fund, or Other Replacement Proceeds to the extent that those funds or accounts are derived by or derived from a substantial beneficiary of the Bonds.

“Sale Proceeds” shall mean the amount of \$43,270,000, comprising the initial aggregate principal amount of the Bonds.

“Sinking Fund” shall have the meaning set forth in Section 1.148-1(c)(2) of the Treasury Regulations, and generally means a debt service fund, redemption fund, reserve fund, replacement fund or any similar fund to the extent that such fund is reasonably expected to be used directly or indirectly to pay principal or interest on the Bonds.

“Spendable Proceeds” shall mean, with respect to any issue of obligations, the net amount received as a result of the sale of such obligations minus the sum of: (i) the amount of the proceeds of such obligations used to fund a debt service reserve fund plus \$100,000; and (ii) the amount of proceeds from the sale of such obligations used to pay interest on such obligations during an initial three-year temporary period.

“Tax-Exempt Bond” shall mean any bond the interest on which is excludable from gross income under Section 103 of the Code. Tax-Exempt Bond includes: (i) an interest in

a regulated investment company to the extent that at least ninety five percent (95%) of the income to the holder of the interest is interest that is excludable from gross income under Section 103 of the Code, and (ii) a certificate of indebtedness issued by the United States Treasury Department pursuant to the demand deposit state and local government series program described in 31 CFR Part 344.

“Treasury Regulations” shall mean such regulations (including final, temporary and proposed) promulgated by the United States Department of the Treasury pursuant to Section 103 of the Internal Revenue Code of 1954, as amended, and Sections 103 and 141 through 150, inclusive, of the Code. Provisions of Treasury Regulations referred to by Section number herein shall refer to the Treasury Regulations promulgated pursuant to T.D. 8476 as amended, unless otherwise indicated.

“Underwriter” shall have the meaning set forth in Section 1.2 of this Tax Certificate.

“Yield Reduction Payments” shall have the meaning set forth in Section 3.10 of this Tax Certificate.

ARTICLE II

REPRESENTATIONS, EXPECTATIONS AND WARRANTIES OF THE AUTHORITY AND THE DISTRICT

Section 2.1 Purpose for Bonds. The Bonds are being issued for the following purposes: (a) to refund, on a current basis, the Prior Bonds; (b) paying the costs of issuing the Bonds; and (c) paying the costs of the premiums for the Bond Insurance and the Surety Bond (collectively, the “Insurance”) to the Insurer. Unless an Opinion of Bond Counsel is delivered to the District with respect to the uses of the Bond Proceeds other than those specified in this Section 2.1 and in Section 3.2, the Authority and the District agree to use the Bond Proceeds solely for the above-described purposes and as provided in Section 3.2 hereof.

Section 2.2 Reliance on Other Parties. The expectations of the Authority and the District concerning certain uses of the Proceeds of the Bonds and other matters are based in whole or in part upon representations and certifications of other parties set forth in this Tax Certificate and Exhibits hereto, including the Certificate of the Underwriter (Exhibit B), the Certificate of the Insurer (Exhibit C), the Certificate of the Financial Advisor (Exhibit D) and the Certificate of the City of Modesto (Exhibit E). The Authority and the District are not aware of any facts or circumstances that would cause it to question the accuracy or reasonableness of any such representation or certification made in this Tax Certificate (including the Exhibits hereto).

Section 2.3 Single Issue. All the Bonds were sold to the Underwriter on July 31, 2013 (the “Sale Date”), pursuant to the same plan of financing, and are expected to be paid out of substantially the same source of funds. No other governmental obligations which are expected to be paid out of substantially the same source of funds as the Bonds have been or will be sold within the 31-day period beginning 15 days before the Sale Date pursuant to the same plan of financing as the Bonds.

Section 2.4 [\[Blank\]](#).

Section 2.5 [Registered Form](#). The Bonds are being issued in registered form under the Trust Agreement.

Section 2.6 [No Federal Guarantee](#). The Authority and the District represent, warrant and covenant that they will not (directly or indirectly) use or permit the use of or otherwise invest any Proceeds of the Bonds or any other funds of the Authority or the District or take or omit to take any action that would cause the Bonds to be obligations which are “federally guaranteed” within the meaning of Section 149(b) of the Code. In furtherance of this representation, warranty and covenant, the Authority and the District will not allow the payment of the principal or interest with respect to the Bonds to be guaranteed (directly or indirectly) in whole or in part by the United States or any agency or instrumentality thereof. The Authority and the District also will not, except as provided in the next sentence, use five percent (5%) or more of the Proceeds of the Bonds to make loans the payment of the principal or interest with respect to which are guaranteed (directly or indirectly) in whole or in part by the United States or any agency or instrumentality thereof, nor will the Authority or the District invest five percent (5%) or more of the Proceeds of the Bonds in federally insured deposits or accounts. However, proceeds of the Bonds may be invested without regard to the limitation in this Section 2.6 as follows: investments in the Domestic Water Project Revenue Fund of the District to the extent it qualifies as a bona fide debt service fund, investments in obligations issued by the United States Department of the Treasury and other investments as permitted in Treasury Regulations (e.g., obligations issued pursuant to Section 21B(d)(3) of the Federal Home Loan Bank Act, as amended by Section 511 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989), or any successor provision.

Section 2.7 [Restrictions on Non-Governmental Use](#).

(a) [Private Loan Financing](#). The Authority and the District have not and will not use more than the lesser of five percent (5%) of the Proceeds of the Bonds or \$5,000,000 in the aggregate, either to make or finance loans (other than loans to finance any governmental tax or assessment for an essential governmental function or which are used to acquire or carry Nonpurpose Investments) to any person other than any state or local governmental unit.

(b) [Private Business Use](#). Not more than the lesser of (i) ten percent (10%) of the Proceeds of the Bonds or (ii) \$15,000,000 in the aggregate has been or will be used, directly or indirectly, in a trade or business carried on by a natural person, or in any activity carried on by a person other than a natural person (“Private Use”) excluding, however, use by a state or local governmental unit and use as a member of the general public if, in addition, the payment of the lesser of (i) more than ten percent (10%) of the principal of or interest represented by any of the Bonds of each such issue during the term thereof or (ii) \$15,000,000 in the aggregate is, under the terms of the Bonds or any underlying arrangement, directly or indirectly, secured by any interest in property used or to be used for a Private Use or in payments in respect of property used or to be used for a Private Use or is to be derived from payments, whether or not to the Authority and the District, in respect of property or borrowed money used or to be used for a Private Use.

Treated water produced by the Project will be sold to the City of Modesto, a charter city and municipal corporation in the State of California (the "City"), pursuant to an Amended and Restated Treatment and Delivery Agreement, executed and delivered during 2005 and amended pursuant to Financing Amendments, dated as of June 1, 2007 (the "Treatment and Delivery Agreement"). As set forth in Exhibit F hereto, the City has represented and warranted to the Authority and the District that all such treated water shall be sold through the City's municipal water system to the retail ratepayers of the City.

(c) Nongovernmental Output Property. No part of the Project consists of nongovernmental output property. Nongovernmental output property means any property (or interest therein) which before its acquisition by the Authority and the District was used (or held for use, or built for use) by any person other than a state or local governmental unit in connection with an output facility. An output facility is any property used for the generation, transmission, or distribution of electricity or gas.

Section 2.8 No Hedge Bonds. At the time of original issuance of Prior Bonds, the Authority and the District reasonably expected to expend at least eighty-five percent (85%) of the Spendable Proceeds of each such issue to finance authorized capital projects of the District within three (3) years of the applicable issue date, and not more than 50% of the proceeds of each such original issue was invested in Nonpurpose Investments having substantially guaranteed yields for four years or more from the applicable issue date.

Section 2.9 Information Reporting. The Authority and the District certify that they have reviewed the Internal Revenue Service Form 8038-G to be filed in connection with the issuance of the Bonds (see Exhibit A attached hereto), and believe that all of the information contained in the Form 8038-G is true and complete. The Authority and the District covenant that such Form 8038-G will be filed no later than November 15, 2013, at the Internal Revenue Service Center, 1160 West 1200 South, Ogden, Utah 84201.

Section 2.10 Security. The Bonds are secured under the Trust Agreement by a pledge of Revenues as defined therein and which are principally derived from all Installment Payments and other payments made by the District pursuant to the Installment Payment Agreement. The District anticipates making these payments from Treatment and Delivery Revenues paid to the District by the City pursuant to the Treatment and Delivery Agreement.

Section 2.11 No Pooling. The Authority and the District will not use any Bond proceeds directly or indirectly to make or finance loans to two or more ultimate borrowers.

Section 2.12 Change In Use. The Authority and the District reasonably expect to use all of the Proceeds of the Bonds and all of the facilities that are being financed with the Proceeds, as set forth in Section 2.7 of this Tax Certificate, for the entire stated term to maturity of the Bonds, namely, to September 1, 2022. Absent an Opinion of Bond Counsel, the Authority and the District in fact will use all proceeds of the Bonds and each facility financed with the proceeds of the Bonds as set forth in Section 2.7 of this Tax Certificate.

Section 2.13 Current Refunding. The Prior Bonds will be redeemed on the date hereof.

Section 2.14 Tax Compliance Procedures and Retention of Records. The Attached as Exhibit F are the tax compliance procedures the Authority and the District are adopting by executing this Certificate. In addition, the Authority and the District covenant to maintain all records relating to the requirements of the Code and the representations, certifications and covenants set forth in this Tax Certificate until the date three years after the last outstanding Bonds have been retired. If any of the Bonds are refunded by Tax-Exempt Bonds (the “Refunding Obligations”), the District covenants to maintain all records required to be retained by this Section 2.14 until the later of the date three years after the last outstanding Bonds have been retired or the date three years after the last Prior Bonds have been retired. The records that must be retained include, but are not limited to:

- (i) Basic records and documents relating to the Bonds (including the Trust Agreement, the Installment Purchase Contract, the Tax Certificate and the opinion of bond counsel);
- (ii) Documentation evidencing expenditure of Bond proceeds;
- (iii) Documentation evidencing use of the Project by public and private sources (i.e., copies of the Treatment and Delivery Agreement, management contracts, research agreements, leases, etc.);
- (iv) Documentation evidencing all sources of payment or security for the Bonds; and
- (v) Documentation pertaining to any investment of Bond proceeds (including the purchase and sale of securities, SLGs subscriptions, yield calculations for each class of investments, actual investment income received from the investment of proceeds, guaranteed investment contracts, and rebate calculations).

ARTICLE III

ARBITRAGE

Section 3.1 Reasonable Expectations. This Article III states the reasonable expectations, statements of fact and representations of the Authority and the District with respect to the amount and use of the Proceeds of the Bonds and certain other funds. On the basis of the following, it is not expected that the Bonds will be “arbitrage bonds” within the meaning of Section 148 of the Code.

Section 3.2 Application of Sale Proceeds and Other Funds. The Trustee is delivering the Bonds to the Underwriter on the date hereof in exchange for payment of the Sale Proceeds, less an Underwriter’ discount of \$153,929.09, less a premium of \$155,232.63 for the Insurance. Based upon the advice of the Underwriter (attached hereto as Exhibit B), the Bonds have been reoffered to the public (excluding any bondhouse, broker or other intermediary) at the prices set forth on the inside front cover of the Official Statement, and the initial offering prices are reasonable under customary standards in the applicable tax-exempt market.

The Sale Proceeds will be deposited to the following funds or applied to pay the following costs:

Refunding of Prior Bonds	\$48,322,829.32
Project Fund—Costs of Issuance	345,270.91
Underwriter’ Discount	153,929.09
Bond Insurance Premium	<u>155,232.63</u>
TOTAL	\$48,977,261.95

Section 3.3 Other Funds of the Issuer. The Authority has on deposit in the funds relating to the Prior Bonds amounts held in the debt service accounts (the “Prior Debt Service Accounts”) \$5,468,571.88. The amount of \$5,468,571.88 from the Prior Debt Service Accounts will be applied to redeem the Prior Bonds. No other amounts relating to the Prior Bonds remain unspent.

Section 3.4 Investment Proceeds. Investment Proceeds will be credited to the fund or account from which the investment was made. Investment Proceeds of the Bonds deposited in the Project Fund and will be retained therein and applied to pay costs of issuance of the Bonds until paid and shall thereafter be deposited into the Series 2013G Revenue Fund.

Section 3.5 No Overissuance. The Authority and the District certify that the total Proceeds to be received from the sale of the Bonds, together with other funds made available by the Authority and the District, and anticipated investment earnings thereon, do not exceed the total of the amount necessary to finance the Project.

Section 3.6 Funds and Accounts.

(a) Debt Service. The Bonds are limited obligations of the District for which Treatment and Delivery Revenues of the District are pledged under the Installment Purchase Agreement. The Domestic Water Project Revenue Fund holds all Treatment and Delivery Revenues of the District, which are applied by the District under the Installment Purchase Contract to the District’s Domestic Water Installment Payments. The Revenue Fund under the Trust Agreement holds all Revenues, including such Domestic Water Installment Payments, relating to the Bonds. No fund or account, authorized or established pursuant to the Installment Purchase Contract, the Trust Agreement, the Bonds, or otherwise, are expected to be used, directly or indirectly, to pay debt service on the Bonds other than the Domestic Water Project Revenue Fund, the Revenue Fund and the funds described below, nor is there any assurance that other amounts will be in the Domestic Water Project Revenue Fund or the Revenue Fund in the event of financial difficulties of the District, because the District may withdraw the funds in the Domestic Water Project Revenue Fund for any lawful purpose.

Moneys from the Domestic Water Project Revenue Fund (including the Series G Domestic Water Installment Payment Account therein) are deposited on or before the last day of each month in an amount equal to one-sixth of the interest and one-twelfth of the principal scheduled to be paid with respect to the Series G Domestic Water Installment Payments. Such payments are designed primarily to achieve a proper matching of revenues and debt service on the Bonds. Such funds (including the moneys in the Revenue Fund and the Domestic Water

Project Revenue Fund to be deposited in the Installment Payment Fund and the Series G Domestic Water Installment Payment Account) will be depleted at least once each year. Amounts deposited in the Domestic Water Project Revenue Fund (including the Series G Domestic Water Installment Payment Account therein), including earnings thereon, will be invested without regard to yield.

Moneys are transferred to the Trustee by the District from the Domestic Water Project Revenue Fund (including the Series 2013G Domestic Water Installment Payment Account therein) on a periodic basis for deposit in the Series 2013G Revenue Fund for payment of the debt service on the Bonds. Such funds are then deposited in the Interest Account, the Principal Account and the Redemption Account. The Interest Account, Principal Account and Redemption Account are the repository of periodic payments collected to be used to make periodic payments on the Bonds. Such funds are designed primarily to achieve a proper matching of moneys and debt service on the Bonds. All amounts deposited in such funds and accounts will be expended within 13 months of the date of deposit, or within 13 months of the date of deposit in the Revenue Fund, if earlier. Such funds and accounts will be depleted at least once a year. Amounts deposited in such funds and accounts, including earnings thereon, will be invested without regard to yield.

(b) Series 2013G Reserve Fund. Pursuant to the Installment Purchase Contract, a Series 2013G Reserve Fund has been established from which the Trustee may withdraw amounts from time to time solely for making up any deficiency in the Bona Fide Debt Service Funds or for payment or redemption of all Outstanding Bonds. The Financial Advisor has advised that the Series 2013G Reserve Fund is reasonably required in that it was a material factor in selling the Bonds at the lowest possible yield (given other characteristics of the Bonds) without regard to any benefit from positive net investment earnings on amounts held in the Series 2013G Reserve Fund, and that the maintenance of the Series 2013G Reserve Fund is reasonable and customary in marketing similar issues of governmental obligations. See Exhibit D. The reserve requirement with respect to the Bonds, which is an amount equal to Maximum Annual Series G Domestic Water Installment Payments (namely, \$5,974,700.00), is being satisfied as of the Closing Date through the deposit of the deposit of the Surety Bond with an initial face value of \$5,974,700.00 to the Series 2013G Reserve Fund.

(c) No Sinking Fund. Other than the funds and accounts described in Section 3.6(a) and (b), there are no funds or accounts of the Authority or the District established pursuant to the Law or otherwise which are reasonably expected to be used to pay debt service on the Bonds or which are pledged as collateral for the Bonds and for which there is a reasonable assurance that amounts therein or the investment income earned from such funds or accounts will be available to pay debt service on the Bonds in the event the Authority or the District encounters financial difficulties.

Section 3.7 Investment Restrictions. The Authority and the District certify, warrant and covenant that amounts derived from the sale of the Bonds and the amounts deposited in the funds or accounts described above shall be invested as follows:

(a) Project Fund. Sale Proceeds of the Bonds deposited in the Costs of Issuance Fund shall be applied to pay the costs of issuance of the Bonds and may be invested at an

unrestricted yield for a period not to exceed thirty (30) days from the date of issuance of the Bonds. Thereafter, any such amounts and any earnings thereon shall be deposited to the Series 2013G Revenue Fund. All such investments will be subject to the arbitrage rebate requirements of Section 148(f) of the Code.

(b) Debt Service. Amounts deposited into the Bona Fide Debt Service Funds which are set aside or allocated to pay debt service on the Bonds may be invested at an unrestricted yield. Earnings on such amounts deposited in such portion of the Domestic Water Project Revenue Fund may be invested at an unrestricted yield for a one (1) year period from the date of receipt thereof. Such amounts will not be subject to the arbitrage rebate requirements of Section 148(f) of the Code.

(c) All of the Sale Proceeds being used to refinance the Prior Bonds are being expended on the date hereof to pay the principal of the Prior Bonds.

Section 3.8 No Replacement. The Authority and the District represent, warrant and covenant that no portion of the Proceeds of the Bonds will be used directly or indirectly to replace funds of the Authority or the District or any “related persons” (within the meaning of Section 147(a)(2) of the Code) which were intended to be used for the purposes for which the Bonds are issued and used directly or indirectly to acquire Investment Property reasonably expected to produce a yield higher than the yield on the Bonds. The weighted average maturity of the Bonds, namely 5.4392 years, is not longer than 120% of the remaining weighted average useful life of the facilities being financed by the Bonds.

Section 3.9 No Abusive Arbitrage Device. The Authority and the District represent, warrant and covenant that the Bonds are not, and will not, be part of a transaction or series of transactions that has the effect of (i) enabling the Authority and the District, or any related persons (within the meaning of Section 147(a)(2) of the Code) to exploit the difference between tax-exempt and taxable interest rates to obtain a material financial advantage, or (ii) overburdening the market for tax-exempt obligations in any manner, including, without limitation, selling Bonds that would not otherwise be sold, or selling more Bonds, or issuing them sooner, or allowing them to remain outstanding longer, than would otherwise be necessary.

Section 3.10 Yield Reduction Payments. The yield on Nonpurpose Investments allocable to the Bonds will not be considered to be higher than the applicable yield limitation described in Section 3.7 hereof if the Authority or the District makes yield reduction payments (“Yield Reduction Payments”) pursuant to Section 1.148-5(c)(2)(i) of the Treasury Regulations. The Authority or the District shall calculate any amounts required to be paid with respect to such Nonpurpose Investments at the same time and in the same manner as the Rebate Requirement as provided in Article V of this Tax Certificate.

ARTICLE IV

YIELD

Section 4.1 Yield. For purposes of this Tax Certificate, yield is calculated as set forth in Section 148(h) of the Code and Sections 1.1148-4 and 1.148-5 of the Treasury Regulations. Thus, yield generally means that discount rate which when used in computing the present value of all unconditionally payable payments representing principal and interest with respect to an obligation and the cost of qualified guarantees paid and to be paid with respect to such obligation produces an amount equal to the issue price of the obligation. The aggregate issue price of the Bonds is \$48,977,261.95, which represents the price at which the Bonds were offered to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of Underwriter or wholesalers), as represented by the Underwriter in Exhibit B hereto. The adjusted issue price of the Bonds, which takes into account the premiums paid to the Insurer (namely, \$155,232.63) is \$48,822,029.26. The yield on the Bonds has been calculated to be at least 2.349016%

In computing the yield on the Bonds as described above, the premium for the Insurance is being treated as a qualified guarantee payment with respect to the Bonds. This is based upon representations of the Underwriter, the Financial Advisor and the Insurer (attached hereto as Exhibit B, Exhibit D and Exhibit C, respectively) which together reflect that the premium for the Insurance was negotiated at arm's length and is within the normal range of charges charged by the Insurer for the transfer of credit risk with respect to similar tax-exempt obligations, that the present value of interest saved (including interest saved as a result of issuing fewer bonds) as a consequence of the Insurance exceeds the present value of the premium for the Insurance and that the premium for the Insurance is not included in any direct or indirect payment for a cost, risk or other element that is not customarily borne by guarantors of tax-exempt bonds in transactions in which the guarantor has no involvement other than as a guarantor.

Section 4.2 Qualified Hedge. No contract has been and (absent an Opinion of Counsel) no contract will be entered into such that failure to take the contract into account would distort the yield on the Bonds or otherwise would fail clearly to reflect the economic substance of the transaction.

Section 4.3 Yield Restriction. Absent an Opinion of Bond Counsel, if (A) any Restricted Amount held in the Bond Reserve Fund, plus (B) any amounts held in Bona Fide Debt Service Funds and remaining unexpended after 13 months from the date of accumulation in any such funds, plus (C) any Sale Proceeds or Investment Proceeds held in the Rebate Fund, plus (D) any Sale Proceeds or Investment Proceeds held in the Project Fund to pay the costs of issuance 30 days after the Closing Date, the excess will be invested either (i) in Investment Property with a yield not exceeding the yield on the Bonds, (ii) in assets that are not treated as Investment Property (e.g., Tax-Exempt Bonds), or (iii) in assets that satisfy the requirements for qualified yield reduction payments set forth in Treasury Regulations Section 1.148-5(c), subject to the limitation set forth in Section 1.148-10(b)(1)(ii).

ARTICLE V

REBATE

Section 5.1 Undertakings. The Authority and the District have covenanted to comply with certain requirements of the Code. The Authority and the District acknowledge that the United States Department of the Treasury has issued Treasury Regulations with respect to certain of these undertakings, including the proper method for computing whether any rebate amount is due the federal government under Section 148(f) of the Code. The Authority and the District covenant that each will undertake to determine what is required with respect to the rebate provisions contained in Section 148(f) of the Code from time to time and will undertake to comply with any requirements that may be applicable to the Bonds. The Authority and the District will undertake the methodology described in this Article V of this Tax Certificate, except to the extent inconsistent with any requirements of present or future law, regulations or future guidance issued by the United States Department of the Treasury or if the Authority or the District receives an Opinion of Bond Counsel.

Section 5.2 Recordkeeping. Detailed records with respect to each and every Nonpurpose Investment attributable to Gross Proceeds of the Bonds must be maintained by the Authority or the District including: (i) purchase date, (ii) purchase price, (iii) information establishing fair market value on the date such investment became allocated to Gross Proceeds of the Bonds and thus a Nonpurpose Investment and on the date it ceases to be allocated to Gross Proceeds of the Bonds and thus not a Nonpurpose Investment, (iv) any accrued interest paid, (v) face amount, (vi) coupon rate, (vii) periodicity of interest payments, (viii) disposition price, (ix) any accrued interest received, (x) disposition date, and (xi) broker's fees paid (if at all) or other administrative costs with respect to each such Nonpurpose Investment. Such detailed record keeping is required for the calculation of the Rebate Requirement which, in part, will require a determination of the difference between the actual aggregate earnings of all Nonpurpose Investments and the amount of such earnings assuming a rate of return equal to the yield on the Bonds.

Section 5.3 Rebate Requirement Calculation and Payment.

(a) The Authority and the District represent, warrant and covenant that they will prepare or cause to be prepared a calculation of the Rebate Requirement with respect to the Bonds consistent with the rules described in this Section 5.3. The Authority or the District will prepare or cause to be prepared the calculation of the Rebate Requirement within fifty-five (55) days of the final computation date as prescribed in Section 1.148-3(e)(2) of the Treasury Regulations.

(b) For purposes of calculating the Rebate Requirement (i) the aggregate amount earned with respect to a Nonpurpose Investment shall be determined by assuming that the Nonpurpose Investment was acquired for an amount equal to its fair market value (determined as provided in Section 1.148-5(d)(6) of the Treasury Regulations) at the time it becomes a Nonpurpose Investment, and (ii) the aggregate amount earned with respect to any Nonpurpose Investment shall include any unrealized gain or loss with respect to the Nonpurpose Investment (based on the assumed purchase price at fair market value and adjusted to take into account

amounts received with respect to the Nonpurpose Investment and earned original issue discount or premium) on the first date when there are no outstanding Bonds or when the investment ceases to be a Nonpurpose Investment.

(c) The Authority or the District shall pay to the United States Department of the Treasury out of designated funds not later than sixty (60) days after the final computation date as prescribed in Section 1.148-3(e)(2) of the Treasury Regulations an amount equal to one hundred percent (100%) of the Rebate Requirement plus any actual or imputed earnings on such Rebate Requirement, all as set forth in Section 1.148-3 of the Treasury Regulations and as determined by or on behalf of the Authority and the District.

(d) Each payment required to be made pursuant hereto and relating to the Bonds shall be filed with the Internal Revenue Service Center, 1160 West 1200 South, Ogden, Utah 84201, on or before the date such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T. The Authority or the District must retain records of the calculations required by this Article V until six (6) years after the retirement of the last obligation of the Bonds.

Section 5.4 Prohibited Investments and Dispositions.

(a) General Rule. No Investment Property may be acquired with Gross Proceeds for an amount (including transaction costs, except as otherwise provided in Section 1.148-5(e)(2) of the Treasury Regulations) in excess of the fair market value of such Investment Property. No Investment Property may be sold or otherwise disposed of for an amount (including transaction costs, except as otherwise provided in Section 1.148-5(e)(2) of the Treasury Regulations) less than the fair market value of the Investment Property.

(b) Fair Market Value. In general, the fair market value of any Investment Property is the price at which a willing buyer would pay to a willing seller to acquire the Investment Property, with no amounts paid to artificially reduce or increase the yield on such Investment Property. Other methods may be used, however, to establish fair market value provided, however, that such methods comply with the requirements of Section 1.148-5 of the Treasury Regulations.

(i) If Investment Property is acquired pursuant to an arm's length transaction without regard to any amount paid to reduce the yield on the Investment Property, the fair market value of the Investment Property shall be the amount paid for the Investment Property (without increase for transaction costs, except as otherwise provided in Section 1.148-5(e)(2) of the Treasury Regulations).

(ii) If Investment Property is sold or otherwise disposed of in an arm's length transaction without regard to any reduction in the disposition price to reduce the Rebate Requirement, the fair market value of the Investment Property shall be the amount realized from the sale or other disposition of the Investment Property (without reduction for transaction costs, except as otherwise provided in Section 1.148-5(e)(2) of the Treasury Regulations).

(iii) If a United States Treasury obligation is acquired directly from or disposed of directly to the United States Department of the Treasury (as in the case of United States Treasury Securities – State and Local Government Series obligations), such acquisition or disposition shall be treated as establishing a market for the obligation and as establishing the fair market value of the obligation.

(c) Guaranteed Investment Contracts. The purchase price of any Investment Property acquired pursuant to an investment contract (within the meaning of Section 1.148-1(b) of the Treasury Regulations) shall be determined as provided in this Subsection 5.4(c). No investment contract shall be acquired with Gross Proceeds unless the requirements of this Subsection 5.4(c) are satisfied. With respect to any investment contract, the Authority and the District will obtain from any provider of the investment contract, broker thereof or other party, such information, certification or representation as will enable the Authority and the District to determine that the requirements of this Subsection 5.4(c) are satisfied.

(i) General Rule. The purchase price of an investment contract will be considered to be fair market value, and the requirements of this Subsection 5.4(c) shall be satisfied, if:

(1) the Authority or the District have made (or had made on its behalf) a bona fide solicitation for the investment contract. The solicitation must have specified the material terms of the investment contract, including the collateral security requirements for the investment contract, if any, and, unless the moneys invested pursuant to such investment contract will be held in a float fund or reasonably required reserve or replacement fund, the Authority or the District's reasonably expected drawdown schedule for the moneys to be invested;

(2) at least three bids meeting the qualification requirements of the bid solicitation (as set forth in (1) above) have been received from different reasonably competitive providers of investment contracts that have no material financial interest in the Bonds;

(3) the investment contract has a yield at least equal to the highest yielding of the qualifying bids received from the bidders that have no material financial interest in the Bonds (determined net of any brokers fees);

(4) the yield on the investment contract takes into account as a significant factor the reasonably expected drawdown schedule for the fund(s) to be invested therein, unless such moneys will be held in a float fund or reasonably required reserve or replacement fund;

(5) the terms of the investment contract and the collateral security requirements, if any, are reasonable, based on all the facts and circumstances;

(6) the provider of the investment contract certifies as to all administrative costs to be paid on behalf of the Authority or the District, including any fees paid as broker commissions in connection with the investment contract; and

(7) the yield on the investment contract (determined net of any broker's fee) is no less than the yield available from the provider thereof at the time such investment contract was entered into on reasonably comparable investment contracts offered to other persons, if any, from a source of funds other than gross proceeds of an issue of tax-exempt obligations.

(ii) Brokers Compensation. For purposes of computing the yield on any investment contract acquired through a broker, any compensation received by such broker, whether payable by or on behalf of the obligor or obligee of such investment contract may be taken into account in determining the cost of the investment contract to the extent that the amount of the fee the Authority or the District treats as a "qualified administrative cost" (within the meaning of Section 1.148-5(e)(2)(iii) of the Treasury Regulations): (i) is, in the Opinion of Bond Counsel, "reasonable" (within the meaning of Section 1.148-5(e)(2)(i) of the Treasury Regulations), or (ii) does not exceed the lesser of: (a) \$37,000 and (b) 0.2% of the amount of Gross Proceeds of the Bonds that the Authority and the District reasonably expect, as of the date the investment contract is acquired, to be deposited in the investment contract over the term of the investment contract (i.e., the "computational base" within the meaning of Section 1.148-5(e)(2)(iii)(B)(2)(i) of the Treasury Regulations) or, if more, \$4,000; and with respect to the Bonds, the Authority and the District does not treat as qualified administrative costs more than \$106,000 in brokers' commissions or similar fees with respect to all investment contracts and investments for yield restricted defeasance escrows purchased with Gross Proceeds of the Bonds. The dollar amounts specified in this Section 5.4(c)(ii) are subject to the cost-of-living adjustment provided in Section 1.148-5(e)(2)(iii)(B) of the Treasury Regulations.

(d) Certificates of Deposit. The fair market value of a certificate of deposit that has a fixed interest rate, a fixed principal payment schedule, and a substantial penalty for early withdrawal shall be determined as provided in this Subsection 5.4(d). The fair market value of a certificate of deposit which does have the foregoing attributes may be determined by reference to the bona fide bid price quoted by an Underwriter who maintains an active secondary market in such certificate of deposit. The purchase price of a certificate of deposit will be considered to be fair market value if:

(i) the yield on the certificate of deposit is not less than the yield on reasonably comparable direct obligations of the United States; and

(ii) the yield on the certificate of deposit is not less than the highest published yield of the provider thereof which is currently available on comparable certificates of deposit offered to the public.

Section 5.5 [Exception from Rebate Requirement](#). [Not applicable]

Section 5.6 [Segregation of Proceeds](#). In order to perform the calculations required by the Code, it is necessary to track separately all of the Gross Proceeds. To that end, the Authority and the District shall establish separate funds, accounts or subaccounts or take other accounting measures in order to account fully for all Gross Proceeds.

Section 5.7 Filing Requirements. The Authority and the District shall file or cause to be filed such reports or other documents with the Internal Revenue Service as may be required by the Code from time to time (e.g., Form 8038-G and Form 8038-T).

Section 5.8 Retention of Firm. The Authority and the District hereby undertake to satisfy its obligation to perform the rebate calculations that may be required to be made from time to time with respect to the Bonds. Unless otherwise engaged in writing, neither the Trustee nor Bond Counsel is responsible for such calculations.

ARTICLE VI

OTHER MATTERS

Section 6.1 Authority. The undersigned are authorized representatives of the Authority and the District and are acting for and on behalf of the Authority and the District in entering into this Tax Certificate. To the best of the knowledge and belief of the undersigned, there are no other facts, estimates or circumstances that would materially change the expectations as set forth herein, and said expectations are reasonable.

Section 6.2 Amendment and Supplementation.

(a) Notwithstanding any other provision herein, the Authority and the District hereby agree to amend, supplement or modify this Tax Certificate to the extent necessary to maintain the exclusion of interest on the Bonds from gross income for federal tax purposes as required pursuant to an Opinion of Bond Counsel.

(b) Notwithstanding any other provision herein, if the Authority and the District request an amendment, supplementation or modification hereto, this Tax Certificate shall be so amended, supplemented or modified only with an Opinion of Bond Counsel.

Section 6.3 Severability. If any provision of this Tax Certificate (including all Exhibits hereto) shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions hereof shall not in any way be affected or impaired thereby.

Section 6.4 Multiple Counterparts. This Tax Certificate may be simultaneously executed in multiple counterparts, all of which shall constitute one and the same instrument, and each of which shall be deemed to be an original.

Section 6.5 Survival of Defeasance. Notwithstanding anything in this Tax Certificate or any other provisions of the Law to the contrary, the obligation to remit the Rebate Requirement to the United States Department of the Treasury and to comply with all other requirements contained in this Tax Certificate shall survive the defeasance or payment in full of the Bonds.

IN WITNESS WHEREOF, the Authority and the District have executed this Tax Certificate by their duly authorized representatives, as of August 14, 2013.

**MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY**

By: 
Interim Treasurer

MODESTO IRRIGATION DISTRICT

By: 
Interim General Manager

FORM 8038-G

Information Return for Tax-Exempt Governmental Obligations

► Under Internal Revenue Code section 149(e)
► See separate instructions.

OMB No. 1545-0720

Department of the Treasury
Internal Revenue Service

Caution: If the issue price is under \$100,000, use Form 8038-GC.

Part I Reporting Authority		If Amended Return, check here <input type="checkbox"/>	
1 Issuer's name Modesto Irrigation District Financing Authority		2 Issuer's employer identification number (EIN) 94-6000929	
3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions)		3b Telephone number of other person shown on 3a	
4 Number and street (or P.O. box if mail is not delivered to street address) 1231 Eleventh Street	Room/suite	5 Report number (For IRS Use Only) 3	
6 City, town, or post office, state, and ZIP code Modesto, CA 95354		7 Date of issue August 14, 2013	
8 Name of Issue Domestic Water Project Refunding Revenue Bonds, Series 2013G		9 CUSIP number 607769 FE1	
10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions) Don Dermond, Interim Treasurer		10b Telephone number of officer or other employee shown on 10a 209-526-7472	

Part II Type of Issue (enter the issue price). See the instructions and attach schedule.

11 Education	11		
12 Health and hospital	12		
13 Transportation	13		
14 Public safety	14		
15 Environment (including sewage bonds)	15		
16 Housing	16		
17 Utilities	17	48,977,261	95
18 Other. Describe ►	18		
19 If obligations are TANs or RANs, check only box 19a			<input type="checkbox"/>
If obligations are BANs, check only box 19b			<input type="checkbox"/>
20 If obligations are in the form of a lease or installment sale, check box			<input type="checkbox"/>

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	9/1/2022	\$ 48,977,261.95	\$ 43,270,000	5.4392 years	2.3490 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22		0	00
23 Issue price of entire issue (enter amount from line 21, column (b))	23		48,977,261	95
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	499,200	00	
25 Proceeds used for credit enhancement	25	155,232	63	
26 Proceeds allocated to reasonably required reserve or replacement fund	26	0	00	
27 Proceeds used to currently refund prior issues	27	48,322,829	32	
28 Proceeds used to advance refund prior issues	28	0	00	
29 Total (add lines 24 through 28)	29		48,977,261	95
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30		0	00

Part V Description of Refunded Bonds. Complete this part only for refunding bonds.

31 Enter the remaining weighted average maturity of the bonds to be currently refunded		4.9452	years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded		0	years
33 Enter the last date on which the refunded bonds will be called (MM/DD/YYYY)		8/14/2013	
34 Enter the date(s) the refunded bonds were issued ► (MM/DD/YYYY)		2/26/1998	

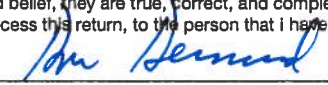
For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 63773S

Form **8038-G** (Rev. 9-2011)

Part VI Miscellaneous

35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35	0	00
36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions)	36a	0	00
b Enter the final maturity date of the GIC ▶ _____			
c Enter the name of the GIC provider ▶ _____			
37 Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units	37	0	00
38a If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input type="checkbox"/> and enter the following information:			
b Enter the date of the master pool obligation ▶ _____			
c Enter the EIN of the issuer of the master pool obligation ▶ _____			
d Enter the name of the issuer of the master pool obligation ▶ _____			
39 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box			<input type="checkbox"/>
40 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box			<input type="checkbox"/>
41a If the issuer has identified a hedge, check here <input type="checkbox"/> and enter the following information:			
b Name of hedge provider ▶ _____			
c Type of hedge ▶ _____			
d Term of hedge ▶ _____			
42 If the issuer has superintegrated the hedge, check box			<input type="checkbox"/>
43 If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box			<input checked="" type="checkbox"/>
44 If the issuer has established written procedures to monitor the requirements of section 148, check box			<input checked="" type="checkbox"/>
45a If some portion of the proceeds was used to reimburse expenditures, check here <input type="checkbox"/> and enter the amount of reimbursement ▶ _____			
b Enter the date the official intent was adopted ▶ _____			

Signature and Consent	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.		
		8/14/2013	Don Dermond, Interim Treasurer
	Signature of issuer's authorized representative	Date	Type or print name and title

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	George G. Wolf		8/14/2013		P01076741
	Firm's name ▶	Orrick, Herrington & Sutcliffe LLP	Firm's EIN ▶	94-2952627	
	Firm's address ▶	405 Howard Street, San Francisco, CA 94104	Phone no.	415-773-5988	

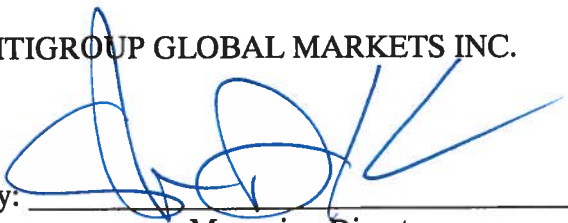
CERTIFICATE OF THE UNDERWRITER

Citigroup Global Markets Inc. has acted as the underwriter (the "Underwriter") with respect to the \$43,270,000 Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds") to be issued for the benefit of the Modesto Irrigation District on August 14, 2013 and hereby certifies and represents the following:

1. As of July 31, 2013 (the "Sale Date"), the Underwriter had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices or yields listed on the inside front cover of the Official Statement, dated July 31, 2013, relating to the Bonds (the "Issue Price").
2. In the Underwriter's reasonable judgment, the Issue Price of the Bonds did not exceed the fair market prices of the Bonds as of the Sale Date.
3. As of the date of this certificate, all of the Bonds have been offered to the general public at such prices.
4. At least 10% of each maturity of the Bonds has been sold at such prices.
5. Using the yield on the bonds as a discount rate, the present value of the interest saved (including interest saved as a result of issuing fewer bonds) as a consequence of the municipal bond insurance policy and the municipal bond debt service reserve insurance policy purchased by the Modesto Irrigation District Financing Authority from Assured Guaranty Municipal Corp. exceeds the present value of the premiums therefor.

IN WITNESS WHEREOF, the undersigned has executed this certificate this 14th day of August, 2013.

CITIGROUP GLOBAL MARKETS INC.

By: 

Managing Director

CERTIFICATE OF THE INSURER

[to come from Assured]

**DISCLOSURE, NO DEFAULT AND TAX CERTIFICATE OF
ASSURED GUARANTY MUNICIPAL CORP.**

The undersigned hereby certifies on behalf of Assured Guaranty Municipal Corp. ("AGM"), in connection with the issuance by AGM of its Policy No. 215749-N (the "Insurance Policy") and Policy No. 215749-R (the "Reserve Policy" and together with the Insurance Policy, the "Policy") in respect of the \$21,575,000 in aggregate principal amount of the Modesto Irrigation District Financing Authority, California, Domestic Water Project Refunding Revenue Bonds, Series 2013G maturing on September 1 of the years 2019 through 2022, inclusive (the "Bonds") that:

- (i) the information set forth under the caption "BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS – Assured Guaranty Municipal Corp." in the official statement dated July 31, 2013, relating to the Bonds (the "Official Statement") is true and correct,
- (ii) AGM is not currently in default nor has AGM ever been in default under any policy or obligation guaranteeing the payment of principal of or interest on an obligation,
- (iii) the Policy is an unconditional and recourse obligation of AGM (enforceable by or on behalf of the holders of the Bonds) to pay the scheduled principal of and interest on the Bonds in the event of Nonpayment by the Issuer (as set forth in the Policy),
- (iv) the insurance premium for the Insurance Policy of \$35,738.63 and for the Reserve Policy of \$119,494.00 (the "Premium") is a charge for the transfer of credit risk and was determined in arm's length negotiations and is required to be paid to AGM as a condition to the issuance of the Policy,
- (v) no portion of such Premium represents an indirect payment of costs of issuance, including rating agency fees, other than fees paid by AGM to maintain its ratings, which, together with all other overhead expenses of AGM, are taken into account in the formulation of its rate structure, or for the provision of additional services by us, nor the direct or indirect payment for a cost, risk or other element that is not customarily borne by insurers of tax-exempt bonds (in transactions in which the guarantor has no involvement other than as a guarantor),
- (vi) AGM is not providing any services in connection with the Bonds other than providing the Policy, and except for the Premium, AGM will not use any portion of the Bond proceeds; provided, however, that AGM or its affiliates may independently provide a guaranteed investment contract for the investment of all or a portion of the proceeds of the Bonds,
- (vii) except for payments under the Policy in the case of Nonpayment by the Issuer, there is no obligation to pay any amount of principal or interest on the Bonds by AGM,
- (viii) AGM does not expect that a claim will be made on the Policy,
- (ix) the Issuer is not entitled to a refund of the premium for the Policy in the event a Bond is retired before the final maturity date, and
- (x) for Bonds which are secured by a debt service reserve fund, AGM would not have issued the Policy unless the authorizing or security agreement for the Bonds provided for a debt service reserve fund funded and maintained in an amount at least equal to, as of any particular date of computation, the reserve requirement as set forth in such agreement.

AGM makes no representation as to the nature of the interest to be paid on the Bonds or the treatment of the Policy under Section 1.148-4(f) of the Income Tax Regulations.

ASSURED GUARANTY MUNICIPAL CORP.

By: _____

Authorized Officer

Dated: August 14, 2013

CERTIFICATE OF THE FINANCIAL ADVISOR

The undersigned, on behalf of First Southwest Company, the financial advisor to the Modesto Irrigation District (the "District") in connection with the issuance of \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds"), hereby certifies and represents as follows:

1. The Series 2013G Reserve Fund is reasonably required in that it was a material factor in selling the Bonds at the lowest possible yield (given other characteristics of the Bonds), and that the maintenance of the Bond Reserve Fund is reasonable and customary in marketing similar issues of governmental obligations.

2. The premium (the "Premium") paid to the Insurer for the Insurance does not include any direct or indirect payment for a cost, risk or other element that is not customarily borne by guarantors of tax-exempt obligations in transactions in which the guarantor has no involvement other than as guarantor.

3. The Premium was negotiated at arm's length and is within the normal range of charges charged by guarantors for the transfer of credit risk with respect to tax-exempt obligations similar to the Bonds.

4. Using the yield on the Bonds as a discount rate, the present value of interest expense saved with respect to the Bonds is greater than the present value of the Premium.

5. The Premium is reasonable.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Tax Certificate and Agreement, dated the date hereof, and executed and delivered by the Authority and the District.

Dated: August 14, 2013

FIRST SOUTHWEST COMPANY

By: Jerald S. Gold
Jerald S. Gold
Senior Vice President

CERTIFICATE OF THE CITY OF MODESTO

The undersigned, on behalf of the City of Modesto (the "City") in connection with the issuance of \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G hereby certifies and represents as follows:

1. All treated water purchased by the City from the District pursuant to the Treatment and Delivery Agreement (as that term is defined in the Tax Certificate) shall be sold through the City's municipal water system to the retail ratepayers of the City.

Dated: August 14, 2013

CITY OF MODESTO

By: _____

Name: *Gloriette Genereux*
Gloriette Genereux

Title: Finance Director

Modesto Irrigation District

**Post-Issuance Tax Compliance Procedures
For Tax-Exempt and Build America Bonds**

August 14, 2013

The purpose of these Post-Issuance Tax Compliance Procedures is to establish policies and procedures in connection with tax-exempt bonds and “Build America Bonds” (“Bonds”) issued by the Modesto Irrigation District (the “District”) so as to ensure that the District complies with all applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt or Build America Bond status of the Bonds.

GENERAL

Ultimate responsibility for all matters relating to the District’s financings and re-financings rests with the District’s Treasurer and Assistant General Manager, Finance (“Treasurer”).

POST-ISSUANCE COMPLIANCE REQUIREMENTS

External Advisors / Documentation

The Treasurer and other appropriate District personnel shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. Those requirements and procedures shall be documented in a District resolution(s), Tax Certificate(s) and / or other documents finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds.

The Treasurer and other appropriate District personnel also shall consult with bond counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of Bond-financed assets and future contracts with respect to the use of output or throughput of Bond-financed assets.

Whenever necessary or appropriate, the District shall engage expert advisors (each a “Rebate Service Provider”) to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds.

Role of the District as Bond Issuer

Unless otherwise provided by District resolutions, unexpended Bond proceeds shall be held by the District, and the investment of Bond proceeds shall be managed by the Treasurer or his or her appointee. The Treasurer or appointee shall maintain records and shall prepare regular, periodic statements to the District regarding the investments and transactions involving Bond proceeds.

If a District resolution provides for Bond proceeds to be administered by a trustee, the trustee shall provide regular, periodic (monthly) statements regarding the investments and transactions involving Bond proceeds.

Arbitrage Rebate and Yield

Unless a Tax Certificate documents that bond counsel has advised that arbitrage rebate will not be applicable to an issue of Bonds:

- the District shall engage the services of a Rebate Service Provider, and the District or the Bond trustee shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;
- upon request, the Treasurer and other appropriate District personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
- the Treasurer and other appropriate District personnel shall monitor efforts of the Rebate Service Provider and assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed; and
- during the construction period of each capital project financed in whole or in part by Bonds, the Treasurer and other appropriate District personnel shall monitor the investment and expenditure of Bond proceeds and shall consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds.

The District shall retain copies of all arbitrage reports and trustee statements as described below under “Record Keeping Requirements”.

Use of Bond Proceeds

The Treasurer and other appropriate District personnel shall:

- monitor the use of Bond proceeds, the use of Bond-financed assets (e.g., facilities, furnishings or equipment) and the use of output or throughput of Bond-financed assets throughout the term of the Bonds (and in some cases beyond the term of the Bonds) to ensure compliance with covenants and restrictions set forth in applicable District resolutions and Tax Certificates;
- maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds;
- consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of Bond-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable District resolutions and Tax Certificates;
- maintain records for any contracts or arrangements involving the use of Bond-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable District resolutions and Tax Certificates;
- meet at least annually with personnel responsible for Bond-financed assets to identify and discuss any existing or planned use of Bond-financed assets or output or throughput of Bond-financed assets, to ensure that those uses are consistent with all covenants and restrictions set forth in applicable District resolutions and Tax Certificates.

All relevant records and contracts shall be maintained as described below.

RECORD KEEPING REQUIREMENTS

Unless otherwise specified in applicable District resolutions or Tax Certificates, the District shall maintain the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:

- a copy of the Bond closing transcript(s) and other relevant documentation delivered to the District at or in connection with closing of the issue of Bonds;
- a copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with Bond proceeds and records

identifying the assets or portion of assets that are financed or refinanced with Bond proceeds;

- a copy of all contracts and arrangements involving private use of Bond-financed assets or for the private use of output or throughput of Bond-financed assets; and
- copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

WRITTEN ORDER AND REQUEST OF THE AUTHORITY

To: WELLS FARGO BANK, NATIONAL ASSOCIATION, as Trustee under that certain Trust Agreement (the "Trust Agreement") by and among Wells Fargo Bank, National Association (the "Trustee"), Modesto Irrigation District Financing Authority (the "Authority") and the Modesto Irrigation District (the "District"), dated as of August 1, 2013:

1. Pursuant to the Trust Agreement, you are hereby authorized and directed to authenticate and deliver the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds"), in the aggregate principal amount of \$43,270,000 authorized to be authenticated and delivered pursuant to the Trust Agreement by the manual signature of an authorized signatory of the Trustee and, on the date set forth below, to deliver the Bonds to or upon the order of Citigroup Global Markets Inc., upon payment to you by such purchasers of an amount equal to \$48,668,100.23 such amount due being calculated by the Authority as follows:

Principal Amount of Bonds	\$43,270,000.00
Original Issue Premium	5,707,261.95
Underwriter's Discount	<u>(153,929.09)</u>
Purchase Price	\$48,823,332.86
Less Bond Insurance Premium	(35,738.63)
Less Reserve Policy Premium	<u>(119,494.00)</u>
Amount Due	<u>\$48,668,100.23</u>

2. Pursuant to Section 3.02 of the Trust Agreement, the Trustee is hereby authorized and directed to apply the proceeds of the Bonds in the amount of \$48,668,100.23 as follows:

- a) \$48,322,829.32 to the redemption of the Prior Water Bonds; and
- b) deposit \$345,270.91 in the Project Fund.

3. You are hereby further requested and directed to accept the contribution of the District in the amount of \$5,468,571.88 and to apply such amount to the redemption of the Prior Water Bonds.

4. You are hereby further requested to receive and hold the Municipal Bond Insurance Policy and Municipal Bond Debt Service Reserve Insurance Policy issued by Assured Guaranty Municipal Corp.

5. You are hereby further requested to invest the amounts remaining in the Project Fund after costs of issuance are paid in Wells Fargo Advantage Funds Heritage Money Market Fund -Admin Svc.

Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Trust Agreement.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 14th day of August, 2013.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By



Interim Treasurer

**CERTIFICATE OF THE
MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY**

The undersigned, Modesto Irrigation District Financing Authority (the “Authority”), hereby certifies as follows:

1. The persons named below are now, and at all times since July 9, 2013 have been, duly qualified officers of the Authority holding the offices of the Authority set opposite their respective names, and the signatures affixed above their respective names and offices are the genuine signatures of such persons.

2. The undersigned Interim Treasurer of the Authority (the “Interim Treasurer”) and the Secretary of the Board of Directors of the Authority (the “Secretary”) further certify that they were duly authorized by the Board of Directors of the Authority (the “Board”) to execute, on behalf of the Authority, the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”), in the aggregate principal amount of \$43,270,000, and that pursuant to such authority they executed the Bonds.

3. The undersigned Interim Treasurer and Secretary further certify that attached hereto as Exhibit A are full, true and correct copies of their Facsimile Signature Certificates, certified under oath, as filed with the Secretary of State of the State of California.

4. The Chairperson of the Board, or his designee, has been duly authorized by the Board to execute, on behalf of the Authority, the Official Statement dated July 31, 2013 (the “Official Statement”), for the Bonds and pursuant to such authority he has executed such Official Statement.

5. The Interim Treasurer, or his designee, has been duly authorized by the Board to execute and deliver, on behalf of the Authority, (i) the Installment Purchase Contract (the “Installment Purchase Contract”) by and between the Authority and the Modesto Irrigation District (the “District”), dated as of August 1, 2013; (ii) the Trust Agreement (the “Trust Agreement”) by and among Wells Fargo Bank, National Association, as trustee (the “Trustee”), the Authority and the District, dated as of August 1, 2013; and (iii) the Purchase Contract (the “Purchase Contract”) by and between the Authority and Citigroup Global Markets Inc., dated July 31, 2013; and pursuant to such authority, the Authority has executed, and delivered the Installment Purchase Contract, the Trust Agreement and the Purchase Contract.

6. The Authority is not in default under any of the agreements, conditions, covenants or terms of the Trust Agreement, all conditions precedent to the execution of the Trust Agreement, the Installment Purchase Contract and the Purchase Contract have been complied with and the representations, warranties and covenants of the Authority contained in the Purchase Contract are true and correct in all material respects on and as if made on this date.

7. Resolution No. 2013-01 has been duly adopted by the Board of Directors of the Authority on July 9, 2013, and has not been modified, amended, rescinded or revoked since its adoption, and is now in full force and effect.

8. Except as described in the Official Statement, no litigation is pending or, to the best of our knowledge after reasonable investigation, threatened (i) to restrain or enjoin the execution, sale or delivery of any of the Bonds, (ii) in any way affecting the validity of the Bonds, the Purchase Contract, the Trust Agreement or the Installment Purchase Contract, or (iii) in any way contesting the existence or powers of the Authority.

9. No event affecting the Authority has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of this date any statement or information contained in the Official Statement relating to the Authority or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein relating to the Authority not misleading in any material respect.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 14th day of August, 2013.

Signature/Name

Office



NICK BLOM

Chairperson of the Board of Directors



DON DERRMOND

Interim Treasurer of the Authority



PAT MILLS

Secretary of the Board of Directors

CERTIFICATE OF THE MODESTO IRRIGATION DISTRICT

The undersigned, authorized officers of the Modesto Irrigation District (the "District"), hereby certify as follows:

1. The persons named below are now, and at all times since July 9, 2013 have been, duly qualified officers of the District holding the offices of the District set opposite their respective names, and the signatures affixed above their respective names and offices are the genuine signatures of such persons.

2. The Interim General Manager, the Interim Treasurer and the Secretary of the Board of Directors of the District (the "Board") have been duly authorized by the Board to execute, attest and deliver, as the case may be, on behalf of the District (i) the Installment Purchase Contract (the "Installment Purchase Contract") by and between the District and the Modesto Irrigation District Financing Authority (the "Authority"), dated as of August 1, 2013; (ii) the Trust Agreement (the "Trust Agreement") by and among Wells Fargo Bank, National Association, as trustee (the "Trustee"), the Authority and the District, dated as of August 1, 2013; and (iii) the Official Statement dated July 31, 2013 (the "Official Statement"), for the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds"), and pursuant to such authority the District has executed and delivered the Installment Purchase Contract, the Trust Agreement and the Official Statement.

3. The Joint Exercise of Powers Agreement (the "Joint Powers Agreement") by and between the City of Redding and the District, dated as of July 1, 1989 was duly authorized by the Board and pursuant to such authority the District has duly executed and delivered the Joint Powers Agreement.

4. The District is not in default under any of the agreements, conditions, covenants or terms of the Installment Purchase Contract, and all conditions precedent to the execution of the Installment Purchase Contract have been complied with.

5. The representations, warranties and covenants of the District contained in the Installment Purchase Contract, the Trust Agreement and the Treatment and Delivery Agreement are true and correct in all material respects on and as of this date as if made on this date.

6. There is no action, suit, proceeding, or investigation, at law or in equity before or by any court, government agency, public board or body pending or, to the best of our knowledge after reasonable investigation, threatened in any way contesting or affecting the validity of the Installment Purchase Contract, the Treatment and Delivery Agreement or the Trust Agreement or in any way contesting the existence or powers of the District, nor to the best of our knowledge after reasonable investigation, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the District of the Installment Purchase Contract, the Treatment and Delivery Agreement or the Trust Agreement.

7. The information in the Official Statement under the captions "THE DOMESTIC WATER PROJECT" and "THE MODESTO IRRIGATION DISTRICT" does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

8. To the best of our knowledge, no event affecting the District has occurred since the date of the Official Statement which should be disclosed in the Official Statement so that the Official Statement will not contain any untrue statement of a material fact and which has not been disclosed in a supplement or amendment to the Official Statement.

All capitalized terms used herein which are not otherwise defined shall have the meanings set forth in the Purchase Contract, dated July 31, 2013, between the Modesto Irrigation District Financing Authority and Citigroup Global Markets Inc., as underwriter.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 14th day of August, 2013.

Signature/Name

Office




ROGER VAN HOY

Interim General Manager of the Modesto
Irrigation District



PAT MILLS

Secretary of the Board of Directors of
Modesto Irrigation District



DON DERRMOND

Interim Treasurer of the Modesto Irrigation
District

REQUISITION NO. 1


The undersigned, duly authorized officer of the Modesto Irrigation District, hereby requests Wells Fargo Bank, National Association, as trustee (the "Trustee") under and pursuant to that certain trust agreement (the "Trust Agreement"), dated as of August 1, 2013, by and among the Modesto Irrigation District Financing Authority (the "Authority"), the Modesto Irrigation District (the "District") and the Trustee to pay each of the persons identified on the attached Schedule I the amounts set forth beside their names from moneys deposited in the Project Fund established and maintained pursuant to the Trust Agreement.

Each obligation identified herein has been properly incurred and is a proper charge against the Project Fund. None of the items so identified has been previously reimbursed from the Project Fund. Each item for which payment is requested was or is necessary in connection with the acquisition, construction, installation or financing of the Project (as such term is defined in the Trust Agreement).

There has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such requisition which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: August 14, 2013.

MODESTO IRRIGATION DISTRICT

By 
Don Dermond
Interim Treasurer

Schedule I

	PAYEE	DESCRIPTION	AMOUNT
1.	Orrick, Herrington & Sutcliffe LLP	Bond Counsel fees and expenses	\$100,000.00
2.	First Southwest	Financial Advisor Fees and Expenses	72,500.00
3.	ImageMaster, LLC	Printing Fee	2,500.00
4.	Wells Fargo Bank, National Association	Trustee fees and expenses	4,000.00
5.	Standard & Poor's Rating Services	Rating Agency fees	25,000.00
6.	Fitch Ratings, Inc.	Rating Agency fees	28,000.00



Modesto Irrigation District
Financial and General Services
P.O. Box 4060
Modesto, CA 95352
Attn: Ed Oborn
Controller

August 14, 2013
Client No. 40082
Invoice No. 1431961

Orrick Contact: John Wang

FOR SERVICES RENDERED as bond counsel in
connection with the issuance of Modesto Irrigation
District Financing Authority Domestic Water Project
Refunding Revenue Bonds, Series 2013G

TOTAL \$ 100,000.00

Matter: 40082/18 – Water Treatment Project

DUE UPON RECEIPT

In order to ensure proper credit to your account,
please reference your **INVOICE** and **CLIENT** numbers on your remittance.
For inquiries, call: (304) 231-2701. Fax (304) 231-2501.

REMITTANCE COPY - PLEASE RETURN WITH PAYMENT

REMITTANCE ADDRESS:

*Orrick, Herrington & Sutcliffe LLP
Dept 34461
P.O. Box 39000
San Francisco, CA 94139
Reference: 40082/ Invoice: 1431961*

**ELECTRONIC FUNDS
TRANSFERS:**

ACH & Wire Transfers:
ABA Number 121000248
SWIFT CODE: WFBIUS6S
Account Number: 4123701088
*Wells Fargo
420 Montgomery Street
San Francisco, CA 94104
Account of
Orrick, Herrington & Sutcliffe LLP
Reference: 40082/ Invoice: 1431961
E.I.N. 94-2952627*

OVERNIGHT DELIVERY:

*Orrick, Herrington & Sutcliffe LLP
c/o Wells Fargo Lockbox
Attn: Dept 34461
3440 Walnut Avenue
Building A, Window H
Fremont, CA 94538
(213) 614-3248
Reference: 40082/ Invoice: 1431961*



August 05, 2013
Account Number: 3315014

Invoice Number: 8101
Jerry Gold

Invoice

Ed Oborn
Modesto Irrigation District
1231 Eleventh Street
(Mailing: P.O. Box 4060)
Modesto, CA 95354

Re: Modesto Irrigation District
\$43,270,000 Domestic water Project Refunding Revenue Bonds, Series 2013G

Fees And Expenses Incurred

FA Fees	\$70,000.00
Expenses	2,500.00
Total	<u><u>\$72,500.00</u></u>

Please Remit Payment To:

*First Southwest Company
325 N Saint Paul St, Ste 800*

Dallas, TX 75201

Wiring Instructions

*The Bank of New York
1 Wall Street
New York, NY 10012
ABA Number: 021-000-018
Account Name: First Southwest Company
Account Number: 890 0271 779
Reference: 3315014*



Invoice

Date	Invoice #
8/12/2013	35366

Bill To
Modesto Irrigation District 1231 Eleventh Street Medesto CA 95354

Remit To
ImageMaster, LLC 1182 Oak Valley Drive Ann Arbor, MI 48108-9624 Phone: 734-821-2523 Fax: 734-821-2524 EIN: 27-3916541

Terms	Due Date
Net 30	9/11/2013

Description	Amount
\$43,270,000, MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS, SERIES 2013G Preliminary Official Statement and Official Statement: Electronic POS with composition, posting and distribution. OS, 40# opaque, 80# cover, black ink, 8 1/2 x 11, color logo, one color text page, perfect bound, printing on spine with electronic distribution and shipping per bid specifications.	2,500.00
FSC Mixed - Cert no. BV-COC-960893 Acct:375008638277 - Bank of America ACH ABA:072000805 / Wire ABA: 026009593 Benefit of ImageMaster LLC. Please supply invoice number with payment.	

Please remit to above address. For billing inquiries:734-821-2536.	Total \$2,500.00
--	-------------------------



Fee Invoice

Corporate Trust Services

Invoice Number
46585700

Billing Date
8/13/2013

Due Date
8/14/2013

Mr. Don Dermond
Modesto Irrigation District
1231 Eleventh Street
Modesto, CA 95354

<p><u>Amount Due</u> \$4,000.00</p> <p><u>Mailing Address:</u> Wells Fargo Bank, NA 707 Wilshire Blvd., 17th Floor Los Angeles, CA 90017</p>
<p><u>Wiring Instructions</u> Wells Fargo Bank, NA ABA# 121000248 DDA# 0001038377 REF: Modesto ID 2013G Attn: Grace Yang 213-614-3320</p>

Please return this portion of the statement with your payment in the envelope provided:

Please retain this portion for your records

Account Number: 46585700

Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds Series 2013G

Acceptance Fee	For the period 8/14/2013 to 8/14/2013	\$1,500.00
Trustee Fee	For the period of 8/14/2013 to 8/13/2014	\$2,000.00
Trustee Counsel Fee	For the period of 8/14/2013 to 8/14/2013	<u>\$500.00</u>
Total Amount Due:		\$4,000.00

**STANDARD
& POOR'S**
RATINGS SERVICES

Standard & Poor's Financial Services, LLC
Federal I.D.: 26- 3740348

Invoice No.: 10328618
Customer No.: 1000092147
Invoice Date: 07/24/13

Page No.: 1
Print Date: 08/13/13

0201

MS. GLORINETTE BECK
CITY OF MODESTO
1010 TENTH STREET, SUITE 5200
FINANCE DEPARTMENT
MODESTO CA 95353-0000

101321 ANALYTICAL SERVICES RENDERED IN CONNECTION WITH: \$25,000.00
US\$43,980,000 Modesto Irrigation District Finance
Authority, California, Domestic Water Project
Refunding Revenue Bonds (Modesto), Series 2013G,
dated: Date of Delivery, due: September 01, 2022

FOR INQUIRIES PLEASE CONTACT: SANTOSHI VYRAGARAM
SANTHOSHI_VYRAGARAM@STANDARDANDPOORS.COM
PHONE: 1-800-767-1896 EXT #5
FAX: 1-212-438-5178

For inquiries contact the client services representative listed on this invoice. Do not return
it or direct any inquiries about the invoice to credit ratings analysts. S&P maintains
a separation of commercial and analytical activities. Please note that our credit ratings
analysts are not permitted to communicate, negotiate, arrange or collect credit rating fees.

PLEASE REFERENCE INVOICE OR STATEMENT NUMBER ON ALL CHECKS AND WIRE TRANSFERS

This Invoice Due and Payable As Of: 07/24/13

INVOICE TOTAL \$25,000.00 USD

Make Checks Payable To:

**STANDARD
& POOR'S**
RATINGS SERVICES

Standard & Poor's Financial Services, LLC
Federal I.D.: 26- 3740348

Invoice No.: 10328618
Customer No.: 1000092147
Invoice Date: 07/24/13

0201

Billed To:

MS. GLORINETTE BECK
CITY OF MODESTO
1010 TENTH STREET, SUITE 5200
FINANCE DEPARTMENT
MODESTO CA 95353-0000

Wire Transfer To:

BANK OF AMERICA
SAN FRANCISCO CA
STANDARD AND POOR'S
ACCOUNT NO. 12334-02500
ABA No. 0260-0959-3
PLEASE REFERENCE INVOICE #

Remit To:

STANDARD AND POOR'S
2542 COLLECTION CENTER DRIVE
CHICAGO, IL 60693

TOTAL AMOUNT DUE:
\$25,000.00 USD
AMOUNT ENCLOSED:

10000921476 10328618 02500000 1 700 10 07 0713 6

FitchRatings

Fitch Ratings, Inc.
One State Street Plaza
33 Floor
New York, NY10004
Federal IRS Corporate Tax No. 13-3974563
Phone# (212)908-0500 Toll Free# 1-800-853-4824

Invoice

Attn: **Lou Hampel**
Modesto Irrigation District
1231 Eleventh St. P.O. Box 4060
Modesto CA 95354

Billing Information	
Terms of Payment	Payable upon receipt
Invoice No.	7119017738
Invoice Date	August 15, 2013
Currency	USD
Accounting Contact email	collections@fitchratings.com

Modesto Irrigation District Financing Authority (CA) domestic wtr proj rfdg rev bonds ser 2013G

Rating Fee	28,000.00
Invoice Amount	28,000.00
Total Tax	0.00
Total Amount Due (USD)	28,000.00

VIA WIRE:
FITCH RATINGS, INC.
JP Morgan Chase
New York, NY
ABA#021-0000-21
Acct#530-5011-63

VIA CHECK:
FITCH RATINGS, INC.
General Post Office
P.O.Box 26858
New York, NY 10087-6858

Please quote the Invoice Number 7119017738 when making payment

CERTIFICATE OF THE CITY OF MODESTO

The undersigned, an authorized officer of the City of Modesto (the "City"), hereby certifies as follows:

1. The person named below is now, and at all times since July 9, 2013 has been, a duly qualified officer of the City holding the office of the City set below her name, and the signature affixed above her name and office is the genuine signature of such person.

2. The Finance Director of the City has been duly authorized by the City Council of the City to execute and deliver on behalf of the City (i) the Letter of Representations of the City, dated July 31, 2013 (the "Letter of Representations"), (ii) the tax certificate of the City dated August 14, 2013 (the "Tax Certificate") and (iii) the Official Statement dated July 31, 2013 (the "Official Statement"), for the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G, and pursuant to such authority the City has executed and delivered the Letter of Representations, the Tax Certificate and the Official Statement.

3. The representations and warranties made by the City in the Letter of Representations are true and correct as of August 14, 2013 (the "Closing Date"), provided that, as to the representations contained in the Letter of Representations, references to "the date hereof" shall be deemed to be the Closing Date.

4. There is no action, suit, proceeding or investigation, at law or in equity before or by any court, government agency, public board or body pending or, to the best of my knowledge after reasonable investigation, threatened, in any way contesting or affecting the validity of the Treatment and Delivery Agreement or the Continuing Disclosure Agreement, between the City and Wells Fargo Bank, National Association, as dissemination agent, dated August 14, 2013 (the "Continuing Disclosure Agreement"), or in any way contesting the existence or powers of the City, nor to the best of my knowledge after reasonable investigation, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the City of the Treatment and Delivery Agreement or the Continuing Disclosure Agreement.

5. The financial information regarding the City's Water Utility System contained in the Official Statement fairly presents the financial position of the City's Water Utility System.

6. To the best of my knowledge, no event affecting the City and the City's Water Utility System has occurred since the date of the Official Statement which should be disclosed in the Official Statement so that the Official Statement will not contain any untrue statement of a material fact and which has not been disclosed in a supplement or amendment to the Official Statement.


7. Since June 30, 2012, except as referred to in or as contemplated by the Official Statement, with respect to its Water Utility System, the City has not incurred any

financial liabilities, direct or contingent, or entered into any transactions and there has not been any adverse change in the condition, financial or physical, of the City's Water Utility System, in any case that would materially and adversely affect the ability of the City to meet its obligations under the Treatment and Delivery Agreement or the Continuing Disclosure Agreement.

All capitalized terms used herein which are not otherwise defined shall have the meanings set forth in the Purchase Contract, dated July 31, 2013, between the Modesto Irrigation District Financing Authority and Citigroup Global Markets Inc., as underwriter.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of the City of Modesto this 14th day of August, 2013.

CITY OF MODESTO

By: 
Name: Gloriette Genereux
Office: Finance Director

CERTIFICATE OF THE TRUSTEE

The undersigned, Wells Fargo Bank, National Association, as trustee (the "Trustee") under that certain Trust Agreement (the "Trust Agreement") among the Modesto Irrigation District Financing Authority (the "Authority"), the Modesto Irrigation District (the "District") and the undersigned, dated as of August 1, 2013, authorizing the issuance of \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds") hereby certifies as follows:

1. The Trustee is a national banking association duly organized and existing under and by virtue of the laws of the United States of America, having the full power and being qualified to enter into and perform its duties under the Trust Agreement and the Continuing Disclosure Agreement, between the City of Modesto and the undersigned, as dissemination agent, dated August 14, 2013 (the "Continuing Disclosure Agreement").

2. The Trustee is duly authorized to enter into the Trust Agreement and the Continuing Disclosure Agreement and to authenticate and deliver the Bonds to Citigroup Global Markets Inc. the underwriter, pursuant to the Trust Agreement.

3. When delivered to and paid for by the Underwriter on this date, the Bonds will have been duly authenticated and delivered by the Trustee.

4. The execution and delivery of the Trust Agreement and the Continuing Disclosure Agreement and the authentication of the Bonds and compliance with the provisions on the Trustee's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Trustee is a party or is otherwise subject.

5. To the best knowledge of the undersigned, the Trustee has not been served with any action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, nor is any such action threatened against the Trustee, as such but not in its individual capacity, affecting the existence of the Trustee, or the titles of its officers to their respective offices, or contesting or affecting the validity or enforceability of the Trust Agreement or the Continuing Disclosure Agreement against the Trustee, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Trust Agreement or the Continuing Disclosure Agreement against the Trustee.

6. Subject to the provisions of the Trust Agreement and applicable law, the Trustee will apply the proceeds from the Bonds in the amount of \$48,668,100.23 to the purposes specified in the Trust Agreement, as follows:

a) \$48,322,829.32 shall be applied by Wells Fargo, National Association, as the trustee for the Prior Water Bonds (the "Prior Trustee"), to redeem the Prior Water Bonds; and

b) \$345,270.91 shall be deposited in the Project Fund.

7. Pursuant to the Written Order and Request of the Authority, dated the date hereof, the Prior Trustee will apply the funds received from the District in the amount of \$5,468,571.88 to redeem the Prior Water Bonds.

8. The Trustee hereby acknowledges receipt of the Municipal Bond Insurance Policy and the Municipal Bond Debt Service Reserve Insurance Policy issued by Assured Guaranty Municipal Corp.

All capitalized terms used herein and not otherwise defined will have the meanings set forth in the Trust Agreement.

Dated: August 14, 2013.

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By  _____
Authorized Representative

WELLS FARGO BANK, NATIONAL ASSOCIATION

ASSISTANT SECRETARY'S CERTIFICATE

I, Scott C. Emmons, hereby certify that I am an Assistant Secretary of Wells Fargo Bank, National Association, a national banking association, (the "Bank"), and I hereby further certify as follows:

1. The following is a true and correct extract from resolutions duly adopted by the Board of Directors of the Bank on November 25, 2003, and no modification, amendment, rescission or revocation of such resolutions has occurred affecting such extract as of the date of this certificate.

RESOLVED, that for the purposes of these resolutions, "Executive Officer" shall mean any person specifically designated as an Executive Officer of the Bank by resolution of the Board of Directors, and "Signing Officer" shall mean the Chairman of the Board, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President, the Treasurer, any Vice President, any Assistant Vice President, any person whose title includes the word "Officer" (e.g., Commercial Banking Officer, Personal Banking Officer, Trust Officer), or any other person whose title has been or is hereafter designated by the Board of Directors as a title for an officer of the Bank, and such officers are hereby authorized to sign agreements, instruments and other documents on behalf of the Bank in accordance with the signing authorities conferred in Parts A, B and C of these resolutions;

* * *

C. Signing Officers


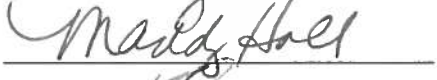
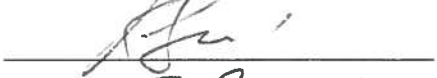





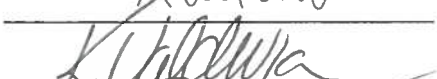
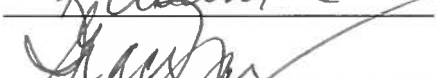

FURTHER RESOLVED, that any Signing Officer, acting alone, may execute on behalf of the Bank, whether acting for its own account or in a fiduciary or other representative capacity:

* * *

Trust indentures, declarations of trust, trust and agency agreements, pooling and servicing agreements, fiscal and paying agency agreements, acceptances thereof, consents thereto and any similar agreements, however denominated, to which the Bank is a party in a fiduciary or other representative capacity; certificates of authentication or other indicia of valid issuance with respect to bonds, notes, debentures and other securities or obligations issued under any indenture, mortgage, trust or other agreement; certificates for securities deposited, interim certificates and other certificates for and on behalf of the Bank as depository or agent; countersignatures of stocks, bonds, notes, debentures, voting trust certificates, participation certificates and other certificates, instruments, obligations or other securities on behalf of the Bank as

certificates of cancellation and cremation of stocks, bonds, debentures or other securities.

2. The following named persons are Signing Officers of the Bank as of the date hereof, and their correct titles and genuine signatures appear beside their names:

<u>Name</u>	<u>Title</u>	<u>Signature</u>
Sandy Chan	Vice President	
Maddy Hall	Vice President	
Kyle Lim	Assistant Vice President	
Tom Orlina	Vice President	
Dania Samai	Vice President	
Robert Schneider	Vice President	
Kheang (TK) Tan	Assistant Vice President	
Michael Tu	Assistant Vice President	
Aimee Tabor	Vice President	
Kathryn Valdivia	Vice President	
Grace Yang	Vice President	

August **IN WITNESS WHEREOF**, I have hereunto set my hand this 14th day of 2013.



Scott C. Emmons
Assistant Secretary



MUNICIPAL BOND INSURANCE POLICY

ISSUER: Modesto Irrigation District Financing Authority,
California

Policy No.: 215749-N

Effective Date: August 14, 2013

BONDS: \$21,575,000 in aggregate principal amount of
Domestic Water Project Refunding Revenue
Bonds, Series 2013G maturing on September 1
of the years 2019 through 2022, inclusive

Premium: \$35,738.63

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.


AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By 
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)



**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER: Modesto Irrigation District Financing Authority,
California

Policy No.: 215749-N
Effective Date: August 14, 2013

BONDS: \$21,575,000 in aggregate principal amount of
Domestic Water Project Refunding Revenue Bonds,
Series 2013G maturing on September 1 of the years
2019 through 2022, inclusive

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52ND Street, New York, New York 10019

(212) 826-0100

Form 560NY (CA 1/91)

NOTICE OF CLAIM AND CERTIFICATE

Assured Guaranty Municipal Corp.
31 West 52nd Street
New York, NY 10019

The undersigned, a duly authorized officer of [FULL NAME OF TRUSTEE or PAYING AGENT] (the "Trustee/Paying Agent"), hereby certifies to Assured Guaranty Municipal Corp. ("AGM"), with reference to Municipal Bond Insurance Policy No. 215749-N dated August 14, 2013 (the "Policy") issued by AGM in respect of the Modesto Irrigation District Financing Authority, California Domestic Water Project Refunding Revenue Bonds, Series 2013G maturing on September 1 of the years 2019 through 2022, inclusive (the "Bonds"), that:

(i) The Trustee/Paying Agent is the Trustee/Paying Agent under the document authorizing the issuance of the Bonds (the "Trust Agreement") for the Holders.

(ii) The sum of all amounts on deposit (or scheduled to be on deposit) in the [RELEVANT ACCOUNTS] and available for distribution to the Holders pursuant to the Trust Agreement will be \$ _____ (the "Shortfall") less than the aggregate amount of principal and interest Due for Payment on _____ ("Scheduled Payments").

(iii) The Trustee/Paying Agent is making a claim under the Policy for the Shortfall to be applied to the payment of Scheduled Payments.

(iv) The Trustee/Paying Agent agrees that, following receipt of funds from AGM, it shall (a) hold such amounts in trust and apply the same directly to the payment of Scheduled Payments on the Bonds when due; (b) not apply such funds for any other purpose; (c) not commingle such funds with other funds held by the Trustee/Paying Agent and (d) maintain an accurate record of such payments with respect to each Bond and the corresponding claim on the Policy and proceeds thereof, and, if the Bond is required to be [SURRENDERED/PRESENTED] for such payment, shall stamp on each such Bond the legend "\$[insert applicable amount] paid by AGM and the balance hereof has been canceled and reissued" and then shall deliver such Bond to AGM.

(v) The Trustee/Paying Agent, on behalf of the Holders, hereby assigns to AGM the rights of the Holders with respect to the Bonds to the extent of any payments under the Policy, including, without limitation, any amounts due to the Holders in respect of securities law violations arising from the offer and sale of the Bonds. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to AGM in respect of such payments. Payments to AGM in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Holders to receive all Scheduled Payments in respect of the Bonds. The Trustee/Paying Agent shall take such action and deliver such instruments as may be reasonably requested or required by AGM to effectuate the purpose or provisions of this clause (v).

(vi) The Trustee/Paying Agent, on its behalf and on behalf of the Holders, hereby appoints AGM as agent and attorney-in-fact for the Trustee/Paying Agent and each such Holder in any legal proceeding with respect to the Bonds. The Trustee/Paying Agent hereby agrees that, so long as AGM shall not be in default in its payment obligations under the Policy, AGM may at any time during the continuation of any proceeding by or against the Issuer under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or

similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim in connection with an Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the Bonds (a "Preference Claim"), (B) the direction of any appeal of any order relating to any Preference Claim at the expense of AGM but subject to reimbursement as provided in the Trust Agreement and (C) the posting of any surety, supersedeas or performance bond pending any such appeal. In addition, the Trustee/Paying Agent hereby agrees that AGM shall be subrogated to, and the Trustee/Paying Agent on its behalf and on behalf of each Holder, hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Trustee/Paying Agent and each Holder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

(vii) Payment should be made by wire transfer directed to [SPECIFY INSURANCE ACCOUNT].

Unless the context otherwise requires, capitalized terms used in this Notice of Claim and Certificate and not defined herein shall have the meanings provided in the Policy.

IN WITNESS WHEREOF, the Trustee/Paying Agent has executed and delivered this Notice of Claim and Certificate as of the _____ day of _____, _____.

By _____

Title _____

For AGM or
Fiscal Agent Use Only

Wire transfer sent on _____ By _____

Confirmation Number _____



MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER: Modesto Irrigation District Financing Authority,
California

Policy No.: 215749-R

BONDS: Domestic Water Project Refunding Revenue
Bonds, Series 2013G

Effective Date: August 14, 2013

Premium: \$119,494.00

Termination Date: The earlier of
September 1, 2022 and the date the
Bonds are no longer outstanding

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AGM will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy. Upon such payment, AGM shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Bond Document.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to AGM by or on behalf of the Issuer. Within three Business Days of such reimbursement, AGM shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall AGM incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that AGM has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the

stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$5,974,700. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

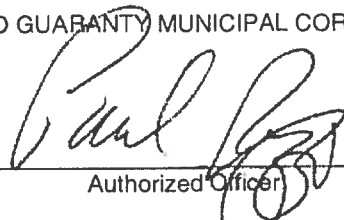
To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By



Authorized Officer

(212) 826-0100

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52ND Street, New York, N.Y. 10019

Form 501 NY (6/90)



**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
DEBT SERVICE RESERVE
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER: Modesto Irrigation District Financing
Authority, California

Policy No.: 215749-R

Effective Date: August 14, 2013

BONDS: Domestic Water Project Refunding
Revenue Bonds, Series 2013G

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By

Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52ND Street, New York, New York 10019

(212) 826-0100

Form 560NY (CA 1/91)

**DISCLOSURE, NO DEFAULT AND TAX CERTIFICATE OF
ASSURED GUARANTY MUNICIPAL CORP.**

The undersigned hereby certifies on behalf of Assured Guaranty Municipal Corp. ("AGM"), in connection with the issuance by AGM of its Policy No. 215749-N (the "Insurance Policy") and Policy No. 215749-R (the "Reserve Policy" and together with the Insurance Policy, the "Policy") in respect of the \$21,575,000 in aggregate principal amount of the Modesto Irrigation District Financing Authority, California, Domestic Water Project Refunding Revenue Bonds, Series 2013G maturing on September 1 of the years 2019 through 2022, inclusive (the "Bonds") that:

- (i) the information set forth under the caption "BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS – Assured Guaranty Municipal Corp." in the official statement dated July 31, 2013, relating to the Bonds (the "Official Statement") is true and correct,
- (ii) AGM is not currently in default nor has AGM ever been in default under any policy or obligation guaranteeing the payment of principal of or interest on an obligation,
- (iii) the Policy is an unconditional and recourse obligation of AGM (enforceable by or on behalf of the holders of the Bonds) to pay the scheduled principal of and interest on the Bonds in the event of Nonpayment by the Issuer (as set forth in the Policy),
- (iv) the insurance premium for the Insurance Policy of \$35,738.63 and for the Reserve Policy of \$119,494.00 (the "Premium") is a charge for the transfer of credit risk and was determined in arm's length negotiations and is required to be paid to AGM as a condition to the issuance of the Policy,
- (v) no portion of such Premium represents an indirect payment of costs of issuance, including rating agency fees, other than fees paid by AGM to maintain its ratings, which, together with all other overhead expenses of AGM, are taken into account in the formulation of its rate structure, or for the provision of additional services by us, nor the direct or indirect payment for a cost, risk or other element that is not customarily borne by insurers of tax-exempt bonds (in transactions in which the guarantor has no involvement other than as a guarantor),
- (vi) AGM is not providing any services in connection with the Bonds other than providing the Policy, and except for the Premium, AGM will not use any portion of the Bond proceeds; provided, however, that AGM or its affiliates may independently provide a guaranteed investment contract for the investment of all or a portion of the proceeds of the Bonds,
- (vii) except for payments under the Policy in the case of Nonpayment by the Issuer, there is no obligation to pay any amount of principal or interest on the Bonds by AGM,
- (viii) AGM does not expect that a claim will be made on the Policy,
- (ix) the Issuer is not entitled to a refund of the premium for the Policy in the event a Bond is retired before the final maturity date, and
- (x) for Bonds which are secured by a debt service reserve fund, AGM would not have issued the Policy unless the authorizing or security agreement for the Bonds provided for a debt service reserve fund funded and maintained in an amount at least equal to, as of any particular date of computation, the reserve requirement as set forth in such agreement.

AGM makes no representation as to the nature of the interest to be paid on the Bonds or the treatment of the Policy under Section 1.148-4(f) of the Income Tax Regulations.

ASSURED GUARANTY MUNICIPAL CORP.

By: _____


Authorized Officer

Dated: August 14, 2013

July 22, 2013

City of Modesto
Finance Department
1010 Tenth Street, Suite 5200
P.O. Box 642
Modesto, CA 95353--0000
Attention: Ms. Gloriette Beck, Director of Finance

Re: ***US\$43,980,000 Modesto Irrigation District Finance Authority, California, Domestic Water Project Refunding Revenue Bonds (Modesto) Series 2013G***

Dear Ms. Beck:

Pursuant to your request for a Standard & Poor's Ratings Services ("Ratings Services") rating on the above-referenced obligations, Ratings Services has assigned a rating of "AA-". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

This letter constitutes Ratings Services' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

To maintain the rating, Standard & Poor's must receive all relevant financial and other information, including notice of material changes to financial and other information provided to us and in relevant documents, as soon as such information is available. You understand that Ratings Services relies on you and your agents and advisors for the accuracy, timeliness and completeness of the information submitted in connection with the rating and the continued flow of material information as part of the surveillance process. Please send all information via electronic delivery to: pubfin_statelocalgovt@standardandpoors.com. If SEC rule 17g-5 is applicable, you may post such information on the appropriate website. For any information not available in electronic format or posted on the applicable website,

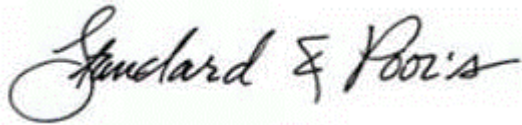
Please send hard copies to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

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Sincerely yours,

A handwritten signature in black ink that reads "Standard & Poor's". The signature is written in a cursive, flowing style. The words "Standard" and "Poor's" are connected, with an ampersand between them. The signature is set against a light green, textured background.

Standard & Poor's Ratings Services

jpg

enclosures

cc: Mr. Jerry S. Gold, Senior Vice President
FirstSouthwest



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RatingsDirect®

Summary:

Modesto Irrigation District Finance Authority, California Modesto; Joint Criteria; Water/Sewer

Primary Credit Analyst:

Tim Tung, San Francisco (1) 415-371-5041; tim.tung@standardandpoors.com

Secondary Contact:

Paul J Dyson, San Francisco (1) 415-371-5079; paul.dyson@standardandpoors.com

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Credit Profile

US\$43.98 mil domestic wtr proj rfdg rev bnds (Modesto) ser 2013G due 09/01/2022

<i>Long Term Rating</i>	AA-/Stable	New
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Modesto wtr VRDB certs of part 2008A

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AAA/A-1	Affirmed
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Modesto Irr Dist Fin Auth, California

Modesto, California

Modesto Irr Dist Fin Auth (Modesto) wtr

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Modesto Irrigation District Financing Authority, Calif.'s series 2013G domestic water project refunding revenue bonds, issued for Modesto. At the same time, Standard & Poor's affirmed its 'AA-' long-term rating on the authority's existing domestic water project bonds and its 'AA-' underlying rating (SPUR) on City of Modesto's series 2008A water revenue certificates of participation (COPs). The outlook on all ratings is stable.

The rating reflects our view of the water system's:

- Stable, primarily residential, and very diverse customer base;
- Moderately low water service rates, which provide management with revenue-raising flexibility;
- Adequate water supply from groundwater and surface water sources that meet existing demand;
- Manageable capital improvement plan (CIP) that does not require additional debt financing;
- Strong financial performance based on the city's audited financial results; and
- Strong liquidity position, which we anticipate will remain strong after taking into consideration management's plan to spend down a portion of its cash reserves on the CIP.

Partly offsetting these credit strengths, in our view, are:

- The water system's limited service area economy, which has experienced high unemployment rates during the past three years; and
- Significant delays and cost overruns associated with the district's Modesto Regional Water Treatment Plant

(MRWTP) expansion, with a funding gap estimated to range from \$8.5 million to \$19 million.

We understand that the 2013G bonds are being issued to refund the authority's series 1998D domestic water project refunding revenue bonds for annual debt service savings.

We view certain key bond provisions as permissive. The 2013G bonds are secured by installment payments that are payable from amounts that the district receives from the city under a treatment and delivery agreement (TDA). The city's obligation to make the payments under the TDA is secured by the gross revenues of the city's water utility system; however, we understand that this is a limited take-or-pay obligation under which the city is not required to make any payments under certain extenuating circumstances. If pledged revenues received by the district are insufficient to pay annual debt service, the district has covenanted to have an authorized representative present a special budget item to the district board requesting the insufficient amount; however, the district board retains full discretion over budgetary decisions and is not obligated to appropriate funds to make up for any shortfall. Although the financing structure exposes bondholders to the district's finances -- through the special budgeting provision as well as potential comingling of pledged revenues with other district funds prior to payment of debt service -- we do not view the credit risk as material to the rating given the district's credit quality and that domestic water revenues are well below 1% of the district's total operating revenues.

Under the TDA, the city covenants to set rates and charges to provide gross revenues equal to at least the sum of system operating expenses, payments due under the TDA, and 125% of annual debt service. We understand that the city is not obligated to meet an additional bonds test under the series 2013G documents or under the TDA; however, the city is currently obligated under a master contract associated with the 2008 COPs to meet a 1.25x maximum annual debt service (MADS) additional bonds test. We understand that the authority intends to purchase a surety bond to satisfy the debt service reserve requirement.

Modesto is located about 93 miles east of San Francisco in California's Central Valley. The city encompasses about 36 square miles and serves as the seat of Stanislaus County. The water system's service area extends beyond the city's boundaries to include adjacent areas, including portions of Empire, Salida, Waterford, Hickman, Grayson, Del Rio, Ceres and Turlock, as well as certain unincorporated portions of the county. The city's population has grown at a 0.3% average annual rate during the past 10 years to an estimated 205,987 as of Jan. 1, 2013. We understand from management that the service area's population is about 265,000, and the city and district's joint 2010 urban water management plan forecasts the service area population to grow by 55% to about 410,000 residents by 2035. We consider the service area's income levels good, based on the city's median household effective buying income, which is 96% of the national level. Reflecting the county's industry concentration in agriculture and related activities, the city experiences high unemployment rates that exhibit significant seasonality. During the past 36 months, the city's unemployment rates ranged from 10.4% to 15.9%, and most recently stood at 10.9% in June 2013 (not seasonally adjusted). On average, the city's unemployment rates track about 5.0% above the nation's rates (7.8% in June 2013) and 2.6% above the state's rates (8.8% in June 2013).

The water system's customer base is stable, primarily residential, and very diverse. System accounts at the end of fiscal year 2012 totaled 76,788, and the number of accounts has remained relatively unchanged during the past four fiscal years; however, we anticipate that system accounts will grow in line with changes in the service area population in the

long-term. We view the customer base as primarily residential, based on residential customers making up about 94% of total accounts. We consider the customer base to be very diverse, given that the 10 leading customers paid only 7.7% of total operating revenues, and no individual customer paid more than 1.5% of total operating revenues in fiscal year 2012.

We understand that the MRWTP expansion project has been further delayed, but that the system has adequate water supply to meet its existing demand. The city historically relied on groundwater as its sole water source, but significant over pumping from the underlying aquifer led to steep declines in groundwater levels, including a decline of 12 feet in the Modesto subbasin in the 1970s. To reduce the water system's reliance on groundwater, the city entered into the TDA with the district in 1992. At that time, the district constructed the MRWTP to provide potable water to the city's water system and the Del Este Water Company, which was subsequently acquired by the city. Raw water is provided by the district to the MRWTP, which was originally rated to a capacity of 30 million gallons per day (mgd), but was rerated to 45 mgd about a decade ago. Generally, the city receives about 55% of its water supply from the MRWTP during the winter and 40% from the MRWTP during the summer, with the remainder provided from groundwater sources.

The MRWTP expansion project is designed to increase the plant's capacity to 72 mgd from 45 mgd, although the average annual production will be limited to 60 mgd based on the 67,200 acre-feet of water rights that are permitted for use at the MRWTP. The expansion project was originally scheduled to be completed in October 2009, but design issues and construction defects have delayed the project and management currently anticipates that the project will be completed by July 2015. We understand that the district and city sued the firms contracted for the design, project management, and construction work, and that settlements have been reached with these parties for about \$24 million. However, this leaves an estimated \$9 million project funding gap if the project is completed by 2015, although it could rise to \$18 million if project construction is deferred. We understand that the district and the city are currently exploring alternatives for dispute resolution to determine whether the district or the city will pay for the unfunded cost overruns.

Service rates are moderately low and have been adjusted based on inflation during the past four fiscal years. We understand that the city is in the process of metering its customer base in compliance with state laws, and that it is currently about 75% complete. For a metered customer, the rate structure is composed of a monthly meter charge based on water meter size, and a volume-based rate that is currently \$1.40 per 100 cubic feet of water. Based on our benchmark monthly usage of 1,000 cubic feet, we calculate a monthly bill of \$29.03, which we consider moderately low. For residential flat-rate customers, the monthly service rate is based solely on lot size and is currently \$46.38 for a customer with a lot size of 5,001 to 7,000 square feet. The city began making inflation-based adjustments in fiscal year 2011 and has since continued the practice. We understand that the city anticipated conducting a rate study in 2011, but deferred it while the city considers participating in Stanislaus Regional Water Authority's projects, and while responsibility for cost overruns at the MRWTP remains unresolved. Customers are billed on a monthly basis, and water service may be discontinued for delinquent accounts. Despite the service area's increased foreclosure rate during the housing recession, management reports delinquencies at less than 1%.

The CIP is manageable, in our view, and includes a variety of new capital as well as replacement projects. We

understand that planned projects include new wells, wellhead treatment, storage tanks, booster pumps, water main extensions, and pump replacements. Total spending on the CIP is estimated to be \$80.6 million during the next five fiscal years. We note that this total does not include any additional spending that may be required related to completing the MRWTP expansion project. Management plans to fund the CIP on a pay-as-you-go basis, including spending down a portion of existing cash reserves, although management indicates debt financing may be used if required spending exceeds available resources.

The system's financial performance has been consistently strong, in our opinion, although we anticipate that margins will narrow once the MRWTP expansion is completed. Based on the city's audited financial statements, we calculate that DSC ranged from 1.76x to 1.89x during the past three fiscal years. Management estimates that fiscal year 2013's financial performance will yield comparable DSC of about 1.85x. Management forecasts that DSC will decline to about 1.5x or 1.6x during the next five fiscal years, and we understand that this change in performance is driven primarily by the city budgeting for higher operating expenses related to the MRWTP expansion being placed in service. However, given that this is not likely to occur until fiscal year 2016, we anticipate that financial results will be similar to recent historical performance until those higher operating expenses are incurred. We understand that the city council has a policy to maintain DSC of at least 1.5x for the water system.

In our view, system liquidity has been strong during the past five years. Based on the city's audited financial statements, we calculate liquidity at no less than 775 days of operating expenses during the past five fiscal years. Management plans to spend a portion of cash reserves on the CIP in lieu of raising rates, but we anticipate that system liquidity will remain strong even after taking this spending into consideration. The city has a policy to maintain at least 25% of annual operating expenses in reserves, and the system has significantly exceeded this minimum requirement, and we anticipate that this practice will continue.

Outlook

The stable outlook reflects our view of the essential service that the water system provides and the system's primarily residential and very diverse customer base. During the two-year outlook period, we anticipate that the district and the city will resolve any remaining issues related to funding the MRWTP expansion project. We could lower the rating if the estimated cost to complete the expansion project significantly rises, thereby putting pressure on the water system's financial metrics. The rating could also be pressured if operating expenses significantly rise without offsetting rate increases to maintain margins. We do not anticipate raising the rating during the two-year outlook period.

Related Criteria And Research

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept.15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- . U.S. State And Local Government Credit Conditions Forecast, July 8, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings

Summary: Modesto Irrigation District Finance Authority, California Modesto; Joint Criteria; Water/Sewer

affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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July 29, 2013

Mr. Lou Hampel
Assistant General Manager, Finance
Modesto Irrigation District
1231 Eleventh St. P.O. Box 4060
Modesto, CA 95354

Dear Mr. Hampel:

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Jeff Schaub
Managing Director, Operations
U.S. Public Finance /
Global Infrastructure & Project Finance

JS/mc

Enc: Notice of Rating Action
(Doc ID: 183910)

Notice of Rating Action

<u>Bond Description</u>	<u>Rating Type</u>	<u>Action</u>	<u>Rating</u>	<u>Outlook/ Watch</u>	<u>Eff Date</u>	<u>Notes</u>
Modesto Irrigation District Financing Authority (CA) domestic wtr proj rfdg rev bonds ser 2013G	Long Term	New Rating	AA-	RO:Sta	12-Jul-2013	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

August 1, 2013

Assured Guaranty Municipal Corp.
31 West 52nd Street
New York, NY 10019
Attention: Mr. Richard Bauerfeld, Managing Director

Re: *\$21,575,000 Modesto Irrigation District Financing Authority, California, Domestic Water Project Refunding Revenue Bonds, Series 2013G, dated: Date of Issuance, maturing on September 1 of the years 2019 through 2022, inclusive, (POLICY #215749-N)*

Dear Mr. Bauerfeld:

Standard & Poor's Ratings Services ("Ratings Services") has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the rating of "AA-" on the above obligations. The rating on the above obligations is based on the policy provided by your company.

We may adjust the underlying rating and the capital charge as a result of changes in the financial position of the issuer or performance of the collateral, or of amendments to the documents governing the issue, as applicable. With respect to the latter, please notify us of any changes or amendments over the term of the debt.

The credit ratings and other views of Ratings Services are statements of opinion and not statements of fact. Credit ratings and other views of Ratings Services are not recommendations to purchase, hold, or sell any securities and do not comment on market price, marketability, investor preference or suitability of any security. While Ratings Services bases its credit ratings and other views on information provided by issuers and their agents and advisors, and other information from sources it believes to be reliable, Ratings Services does not perform an audit, and undertakes no duty of due diligence or independent verification, of any information it receives. Such information and Ratings Services' opinions should not be relied upon in making any investment decision. Ratings Services does not act as a "fiduciary" or an investment advisor. Ratings Services neither recommends nor will recommend how an issuer can or should achieve a particular credit rating outcome nor provides or will provide consulting, advisory, financial or structuring advice.

Ratings Services is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing Ratings Services.

Sincerely yours,



Standard & Poor's Ratings Services

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Standard & Poor's Ratings Services Terms and Conditions Applicable To Public Finance Credit Ratings

General. The credit ratings and other views of Standard & Poor's Ratings Services ("Ratings Services") are statements of opinion and not statements of fact. Credit ratings and other views of Ratings Services are not recommendations to purchase, hold, or sell any securities and do not comment on market price, marketability, investor preference or suitability of any security. While Ratings Services bases its credit ratings and other views on information provided by issuers and their agents and advisors, and other information from sources it believes to be reliable, Ratings Services does not perform an audit, and undertakes no duty of due diligence or independent verification, of any information it receives. Such information and Ratings Services' opinions should not be relied upon in making any investment decision. Ratings Services does not act as a "fiduciary" or an investment advisor. Ratings Services neither recommends nor will recommend how an issuer can or should achieve a particular credit rating outcome nor provides or will provide consulting, advisory, financial or structuring advice. Unless otherwise indicated, the term "issuer" means both the issuer and the obligor if the obligor is not the issuer.

All Credit Rating Actions in Ratings Services' Sole Discretion. Ratings Services may assign, raise, lower, suspend, place on CreditWatch, or withdraw a credit rating, and assign or revise an Outlook, at any time, in Ratings Services' sole discretion. Ratings Services may take any of the foregoing actions notwithstanding any request for a confidential or private credit rating or a withdrawal of a credit rating, or termination of a credit rating engagement. Ratings Services will not convert a public credit rating to a confidential or private credit rating, or a private credit rating to a confidential credit rating.

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Reliance on Information. Ratings Services relies on issuers and their agents and advisors for the accuracy and completeness of the information submitted in connection with credit ratings and the surveillance of credit ratings including, without limitation, information on material changes to information previously provided by issuers, their agents or advisors. Credit ratings, and the maintenance of credit ratings, may be affected by Ratings Services' opinion of the information received from issuers, their agents or advisors.

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Ratings Services Not an Expert, Underwriter or Seller under Securities Laws. Ratings Services has not consented to and will not consent to being named an “expert” or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation, Section 7 of the U.S. Securities Act of 1933. Rating Services has not performed and will not perform the role or tasks associated with an “underwriter” or “seller” under the United States federal securities laws or other regulatory guidance, rules or recommendations in connection with a credit rating engagement.

Disclaimer of Liability. Ratings Services does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a credit rating or the results obtained from the use of such information. RATINGS SERVICES GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. Ratings Services, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to any person for any inaccuracies, errors, or omissions, in each case regardless of cause, actions, damages (consequential, special, indirect, incidental, punitive, compensatory, exemplary or otherwise), claims, liabilities, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in any way arising out of or relating to a credit rating or the related analytic services even if advised of the possibility of such damages or other amounts.

No Third Party Beneficiaries. Nothing in any credit rating engagement, or a credit rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of a credit rating. No person is intended as a third party beneficiary of any credit rating engagement or of a credit rating when issued.



Blanket Issuer Letter of Representations
[To be Completed by Issuer]

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
[Name of Issuer]

August 17, 1995
[Date]

Attention: Underwriting Department — Eligibility
The Depository Trust Company
55 Water Street; 50th Floor
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By: 
(Authorized Officer's Signature)

(Issued)

Received and Accepted:

THE DEPOSITORY TRUST COMPANY

By: 

Robert De La Cruz, Controller.
Modesto Irrigation District Financing Authority
1231 Eleventh Street
Modesto, CA 95352
209-526-7301

REPORT OF PROPOSED DEBT ISSUANCE

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400, Sacramento, CA 95814
P.O. Box 942809, Sacramento, CA 94209-0001
Tel: (916) 653-3269 Fax: (916) 654-7440

Submitted: Tuesday, July 02, 2013
2:50:55PM

Your completion and submittal of this on-line form assures your compliance with existing California State law and will assist in the maintenance of a complete database of public debt in California. Thank you for your cooperation.

ISSUER NAME: Modesto Irrigation District Financing Authority

ISSUE NAME: Domestic Water Project Refunding Revenue Bonds, Series 2013G

Please specify type/ name of project: refunding of the Series 1998D bonds

PROPOSED SALE DATE: 8/1/2013 **PRINCIPAL TO BE SOLD:** \$50,000,000.00

WILL A VALIDATION ACTION BE PURSUED: No Yes Unknown

IS ANY PORTION OF THE DEBT FOR REFUNDING? ² No Yes, proposed amount for refunding \$50,000,000.00

Issuer Contact

Name: Scott VanVuren E-Mail: scottv@mid.org
Title: Acting Assistant General Manager, Finance
Address: 1231 11th Street
City: Modesto, CA 95354
Phone: 209-526-7574 ISSUER LOCATED IN Stanislaus COUNTY

Filing Contact

Name of Individual representing Bond Counsel who completed this form and maybe contacted for information:
Name: John Wang, Esq. E-Mail: jwang@orrick.com
Firm/ Agency: Orrick Herrington & Sutcliffe LLP
Address: 405 Howard Street
City: San Francisco, CA 94105
Phone: 415-773-5857
Send acknowledgement to: Michele Bergland E-Mail: mbergland@orrick.com

FINANCING PARTICIPANTS

BOND COUNSEL: Orrick Herrington & Sutcliffe LLP
FINANCIAL ADVISOR: First Southwest Company
UNDERWRITER\ PURCHASER: Citi

IS THE INTEREST ON THE DEBT TAXABLE?

Under State Law: YES (taxable) NO (tax-exempt)
Under Federal Law: YES (taxable) NO (tax-exempt)
If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax?
 YES, preference item NO, not a preference item

TYPE OF SALE Competitive Negotiated

IS THIS FINANCING A PRIVATE PLACEMENT? No Yes

1 Section 8855(g) of the California Government Code requires the issuer of any proposed new public debt issue to give written notice of the proposed sale to the CDIAC no later than 30 days prior to the sale. Under California Government Code Section 8855(i), "The issuer of any new public debt issue shall, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, submit a report of final sale and official statement to the commission. The Commission may require information to be submitted in the

2 Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to the CDIAC explaining the reasons why the local agency determined to sell the bonds at private sale or on a negotiated basis instead of at public sale.

TYPE OF DEBT INSTRUMENT

NOTE

- Bond anticipation (BAN)
- Grant obligation (GAN)
- Other note (Please specify below.) (OTHN)
- Revenue anticipation (RAN)
- Tax allocation (TALN)
- Tax and revenue anticipation (TRAN)
- Tax anticipation (TAN)

- Commercial paper (CP)
- Certificates of Participation/ leases (COPL)
- Other (Please specify below.) (OTH)

Please specify if "Other Note/ Other Bond/ Other" was checked. N/A

Bond

- Conduit revenue (Private obligor) (CRB)
- General obligation (GOB)
- Limited tax obligation(LTOB)
- Other bond (Please specify below.) (OTHB)
- Public lease revenue (PLRB)
- Revenue (Pool) (RB)
- Revenue (Public enterprise) (PERB)
- Sales tax revenue (STRB)
- Special assessment (SAB)
- Tax allocation (TAB)

SOURCE(S) OF REPAYMENT

- Bond proceeds (BDPR)
- General fund of issuing jurisdiction (GNFD)
- Grants (GRNT)
- Intergovernmental transfers other than grants (I)
- Local obligor (LOB)
- Private obligor payments (POP)
- Other (OTHS)

Please specify if "Other" was checked. N/A

- Property tax revenues (PRTX)
- Public enterprise revenues (PER)
- Sales tax revenues (SATR)
- Special assessments (SA)
- Special tax revenues (SPTR)
- Tax-increment (TI)

PURPOSE(S) OF FINANCING

- Cash flow, interim financing (CFIF)
- Project, interim financing (PIF)

- College/university housing (CUH)
- Multifamily housing (MFH)
- Single-family housing (SFH)

- Health care facilities (HCF)
- Hospital (HOSP)
- Other/multiple health care purposes (equipment; etc.)(OM)

- College/university facility (CUF)
- K-12 school facility (KSCH)
- Other/multiple educational uses (equipment, etc.) (OMED)
- Student Loans (SLC)

- Redevelopment, multiple uses (RD)

- Commercial development (CMDV)
- Industrial development (INDV)
- Pollution control (PC)

Please specify type/ name of project if different from above. N/A

- Airport (APRT)
- Bridges and highways (BRHI)
- Convention center (CCTR)
- Equipment (EQU)
- Flood control/storm drainage (FLDS)
- Multiple capital improvements and public works (MCAP)
- Other capital improvements and public works (OCAP)
- Parking (PRKG)
- Parks/Open space (PRKO)
- Ports and marinas (PRTS)
- Power generations/transmission (PWR)
- Prisons/jails/correctional facilities (PRSN)
- Public building (PB)
- Public transit (PTR)
- Recreation and sports facilities (RCSP)
- Seismic safety improvements/repair (SSI)
- Solid waste recovery facilities (SWST)
- Street construction and improvements (SCI)
- Wastewater collection and treatment (WSTW)
- Water supply/storage/distribution (WTR)

- Insurance/pension funds (IPF)
- Other than listed above (OTH)

3 Certain local government issuers of housing bonds are required to obtain a certification from the State Treasurer attesting to their compliance with the State housing reporting requirements prior to issuance of the bonds to finance single- or multifamily housing.

REPORT OF FINAL SALE

California Debt and Investment Advisory Commission
 915 Capitol Mall, Room 400, Sacramento, CA 95814
 P.O. Box 942809, Sacramento, CA 94209-0001
 Tel: (916) 653-3269 Fax: (916) 654-7440

Submitted: Thursday, August 15, 2013
 2:09:59PM

CDIAC # 2013-1497

Under California Government Code Section 8855(i), "The issuer of any new public debt issue shall, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, submit a report of final sale and official statement (or alternate bond documents) to the Commission. The Commission may require information to be submitted in the report of final sale that is considered appropriate."

ISSUER NAME Modesto Irrigation District Financing Authority
 (if pool bond, list participants)

ISSUE NAME Domestic Water Project Refunding Revenue Bonds, Series 2013G

IF THIS IS A POOLED FINANCING, WHICH ISSUANCE STATUTE IS IT AUTHORIZED UNDER?

N/A

ACTUAL SALE DATE: 7/31/2013

PRINCIPAL SOLD: \$43,270,000.00

DATED DATE: 8/14/2013

IS ANY PORTION OF THE DEBT FOR REFUNDING? (see 1)

No Yes, refunding amount (including costs) \$43,270,000.00

Issuer Contact :

Name : Scott VanVuren

Title : Acting Assistant General Manager, Finance

Address : 1231 11th Street

City/ State/ Zip Modesto, CA 95354

Phone: 209-526-7574

ISSUER LOCATED IN

Stanislaus COUNTY

E-Mail : scottv@mid.org

Filing Contact: Name of Individual representing Bond Counsel who completed this form and may be contacted for information.

Name : John Wang Esq.

Firm/ Agency : Orrick Herrington & Sutcliffe LLP

Address : 405 Howard Street

City/ State/ Zip San Francisco, CA 94105

Phone: 415-773-5857

E-Mail : jwang@orrick.com

Send acknowledgement/ copies to : Michele Bergland

E-Mail : mbergland@orrick.com

Name of individual to who an invoice for the CDIAC issue fee should be sent : (see 2)

Name : Steve Dworkin

Firm/ Agency Citigroup Global Markets Inc.

Address : 444 South Flower Street, 27th Floor

City/ State/ Zip Los Angeles, CA 90071

Phone: 213-486-7188

E-Mail : steven.dworkin@citi.com

1 Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to CDIAC explaining the reasons why the local agency determined to sell the bonds at a private sale or on a negotiated basis instead of at a public sale.

2 This fee is authorized by Section 8856 of the California Government Code and is charged to the lead underwriter or purchaser of the issue. The fee is

FINANCING PARTICIPANTS (Firm Name)

Financial Advisor : First Southwest Company
 Lead Underwriter/ Purchaser : Citigroup Global Markets Inc.
 Bond Counsel : Orrick Herrington & Sutcliffe LLP
 Co-Bond Counsel : N/A
 Trustee/ Paying Agent : Wells Fargo Bank National Association
 Placement Agent : N/A

Office Location (City/ State) :

Santa Monica, CA
 Los Angeles, CA
 San Francisco, CA
 N/A
 San Francisco, CA
 N/A

MATURITY SCHEDULE

Attached Included in Official Statement

MATURITY STRUCTURE

Serial (S) Term (T)
 Serial and term bonds or two or more term (B)

FINAL MATURITY DATE: 9/1/2022

FIRST OPTIONAL CALL DATE: None

SENIOR STRUCTURE: Yes No

SUBORDINATE STRUCTURE: Yes No

OFFICIAL STATEMENT/ OFFERING MEMORANDUM :

Enclosed None prepared

WAS THE ISSUE INSURED OR GUARANTEED?

No
 Bond Insurance (I)
 Letter of Credit (L)
 State Intercept Program (T)
 Other

GUARANTOR : Assured Guaranty Municipal Corp.

ENHANCEMENT EXPIRATION DATE: 9/1/2022

INDICATE CREDIT RATING: (For example, "AAA" or "Aaa")

Not Rated Rated

Standard & Poor's AA-

Fitch AA-

Moody's

Other

REASON FOR NEGOTIATED REFUNDINGS

If the issue is a negotiated refunding, indicate the reason(s) why the bonds were issued at a private or negotiated versus a competitive sale.

- (1) Timing of the sale provided more flexibility than a public sale.
 (2) More cost savings were expected to be realized than a public sale.
 (3) More flexibility in debt structure was available than a public sale.
 (4) Issuer able to work with participants familiar with issue/r than a public sale.
 (5) All of the above.
 (6) Other (please specify) N/A

IS THE INTEREST ON THE DEBT EXEMPT FROM TAXATION?

Under State Law: Yes (taxable) No (tax-exempt)

Under Federal Law: Yes (taxable) No (tax-exempt)

If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax? Yes No

INTEREST TYPE (Please provide both NIC & TIC if available) :

NIC Int. Cost 2.555%

TIC Int. Cost 2.348%

Variable

CAPITOL APPRECIATION BOND: Yes No

ISSUANCE COSTS AND FEES :

A. Management Fee	\$0.00
B. Total Takedown	\$0.00
C. Underwriter Expenses	\$0.00
Underwriter Spread or Discount	\$153,929.09
D. Bond Counsel	\$100,000.00
E. Co-Bond Counsel	\$0.00
F. Disclosure Counsel	\$0.00
G. Financial Advisor	\$72,500.00
H. Rating Agency	\$53,000.00
I. Credit Enhancement	\$155,232.63
J. Trustee Fee	\$4,000.00
K. Placement Agent	\$0.00
L. Other Expenses	\$115,500.00
Total Issuance Costs	\$654,161.72
Original Issue Premium	\$5,707,261.95
Original Issue Discount	\$0.00
Net Original Premium/ Discount	\$5,707,261.95

Information Return for Tax-Exempt Governmental Obligations

► Under Internal Revenue Code section 149(e)
► See separate instructions.

OMB No. 1545-0720

Caution: If the issue price is under \$100,000, use Form 8038-GC.

Part I Reporting Authority		If Amended Return, check here <input type="checkbox"/>
1 Issuer's name Modesto Irrigation District Financing Authority		2 Issuer's employer identification number (EIN) 94-6000929
3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions)		3b Telephone number of other person shown on 3a
4 Number and street (or P.O. box if mail is not delivered to street address) 1231 Eleventh Street	Room/suite	5 Report number (For IRS Use Only) 3
6 City, town, or post office, state, and ZIP code Modesto, CA 95354		7 Date of issue August 14, 2013
8 Name of issue Domestic Water Project Refunding Revenue Bonds, Series 2013G		9 CUSIP number 607769 FE1
10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions) Don Dermond, Interim Treasurer		10b Telephone number of officer or other employee shown on 10a 209-526-7472

Part II Type of Issue (enter the issue price). See the instructions and attach schedule.		
11 Education	11	
12 Health and hospital	12	
13 Transportation	13	
14 Public safety	14	
15 Environment (including sewage bonds)	15	
16 Housing	16	
17 Utilities	17	48,977,261 95
18 Other. Describe ►	18	
19 If obligations are TANs or RANs, check only box 19a		<input type="checkbox"/>
If obligations are BANs, check only box 19b		<input type="checkbox"/>
20 If obligations are in the form of a lease or installment sale, check box		<input type="checkbox"/>

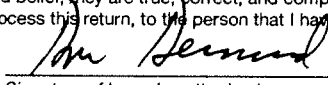
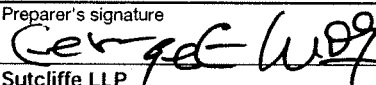
Part III Description of Obligations. Complete for the entire issue for which this form is being filed.					
	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	9/1/2022	\$ 48,977,261.95	\$ 43,270,000	5.4392 years	2.3490 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)					
22	Proceeds used for accrued interest	22	0	00	
23	Issue price of entire issue (enter amount from line 21, column (b))	23	48,977,261	95	
24	Proceeds used for bond issuance costs (including underwriters' discount)	24	499,200	00	
25	Proceeds used for credit enhancement	25	155,232	63	
26	Proceeds allocated to reasonably required reserve or replacement fund	26	0	00	
27	Proceeds used to currently refund prior issues	27	48,322,829	32	
28	Proceeds used to advance refund prior issues	28	0	00	
29	Total (add lines 24 through 28)	29	48,977,261	95	
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	0	00	

Part V Description of Refunded Bonds. Complete this part only for refunding bonds.		
31	Enter the remaining weighted average maturity of the bonds to be currently refunded	4.9452 years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded	0 years
33	Enter the last date on which the refunded bonds will be called (MM/DD/YYYY)	8/14/2013
34	Enter the date(s) the refunded bonds were issued ► (MM/DD/YYYY)	2/26/1998

Part VI Miscellaneous

35	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35	0	00
36a	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions)	36a	0	00
b	Enter the final maturity date of the GIC ▶ _____			
c	Enter the name of the GIC provider ▶ _____			
37	Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units	37	0	00
38a	If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input type="checkbox"/> and enter the following information:			
b	Enter the date of the master pool obligation ▶ _____			
c	Enter the EIN of the issuer of the master pool obligation ▶ _____			
d	Enter the name of the issuer of the master pool obligation ▶ _____			
39	If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box			<input type="checkbox"/>
40	If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box			<input type="checkbox"/>
41a	If the issuer has identified a hedge, check here <input type="checkbox"/> and enter the following information:			
b	Name of hedge provider ▶ _____			
c	Type of hedge ▶ _____			
d	Term of hedge ▶ _____			
42	If the issuer has superintegrated the hedge, check box			<input type="checkbox"/>
43	If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box			<input checked="" type="checkbox"/>
44	If the issuer has established written procedures to monitor the requirements of section 148, check box			<input checked="" type="checkbox"/>
45a	If some portion of the proceeds was used to reimburse expenditures, check here <input type="checkbox"/> and enter the amount of reimbursement ▶ _____			
b	Enter the date the official intent was adopted ▶ _____			

Signature and Consent	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.			
	 Signature of Issuer's authorized representative		8/14/2013 Date	
Paid Preparer Use Only	George G. Wolf Print/Type preparer's name		 Preparer's signature	
	Firm's name ▶ Orrick, Herrington & Sutcliffe LLP		Date 8/14/2013	
	Firm's address ▶ 405 Howard Street, San Francisco, CA 94104		Check <input type="checkbox"/> if self-employed PTIN P01076741	
			Firm's EIN ▶ 94-2952627 Phone no. 415-773-5988	



Proof of Delivery

[Close Window](#)

Dear Customer,

This notice serves as proof of delivery for the shipment listed below.

Tracking Number: 1Z8172210299762781
Service: UPS 2nd Day Air®
Shipped/Billed On: 09/09/2013
Delivered On: 09/11/2013 9:46 A.M.
Delivered To: OGDEN, UT, US
Signed By: REDFORD
Left At: Office

Thank you for giving us this opportunity to serve you.

Sincerely,

UPS

Tracking results provided by UPS: 09/11/2013 1:40 P.M. ET

[Print This Page](#)

[Close Window](#)



Fulbright & Jaworski LLP
555 South Flower Street
Forty-First Floor
Los Angeles, California 90071
United States

Tel +1 213 892 9200
Fax +1 213 892 9494
nortonrosefulbright.com

July 25, 2013

BLUE SKY MEMORANDUM

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS, SERIES 2013G

Citigroup Global Markets Inc.

Ladies and Gentlemen:

This Memorandum relates to the requirements of the “Blue Sky” laws of the jurisdictions listed with respect to the proposed execution and delivery of the above-referenced Bonds (the “Bonds”). The Memorandum is based upon an examination of the National Securities Markets Improvement Act of 1996 (Section 18 of the Securities Act of 1933, as amended) (the “*Preemption Act*”) and of the securities laws of the several jurisdictions and the rules and regulations, where published, of the authorities administering such laws, all as to such jurisdictions as set forth in the CCH Blue Sky Law Reporter or upon informal interpretive advice of “no-action” letters obtained from certain securities commissions or their representatives relating to the Bonds or similar securities. It is noted, however, that the securities laws of certain jurisdictions provide that the burden of claiming an exemption is upon the person claiming the exemption and that informal interpretive advice and “no-action” letters are not necessarily binding upon a court of law.

We call attention to the fact that the authorities responsible for administering the securities laws of the various jurisdictions have broad discretionary powers with respect to the offer and sale of securities, including the power to withdraw exemptions granted by the applicable statutes and the power to impose additional requirements with respect to securities offerings and the information which must be furnished by the proposed issuers and underwriters. This Memorandum is, of course, subject to any changes made in the securities laws of the jurisdictions by reason of such discretionary powers, to the extent that the same are not preempted by the Preemption Act. Furthermore, we have not obtained any opinions from members of the bar of any jurisdiction or formal rulings from regulatory commissions or other administrative bodies or officials.

Citigroup Global Markets Inc.
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 NORTON ROSE FULBRIGHT

The Memorandum does not purport to cover the requirements under any of the laws of the jurisdictions enumerated herein with respect to the registration or licensing of dealers, brokers, salesmen, the form or substance of advertising or the legality of investments in the Bonds by any institutional investor which is subject to statutory or other restrictions as to its investments.

Very truly yours,

Fulbright & Jaworski LLP

SECTION I

SALES BY PERSONS REGISTERED OR LICENSED AS DEALERS OR BROKERS

A.

In the following jurisdictions, no action need be taken to qualify the Bonds and the Bonds may be sold or offered to anyone therein. In this connection, it is assumed that the person who offers for sale or sells the Bonds in a jurisdiction, unless otherwise noted below, is registered or licensed as a dealer or broker therein:

Alabama	Louisiana	Pennsylvania
Alaska	Maine	Puerto Rico
Arizona	Maryland	Rhode Island
Arkansas	Massachusetts	South Carolina
California	Michigan	South Dakota
Colorado	Minnesota	Tennessee
Connecticut	Mississippi	Texas
Delaware	Missouri	Utah
District of Columbia	Montana	Vermont
Florida	Nebraska	Virginia
Georgia	New Jersey	Washington
Hawaii	New Mexico	West Virginia
Idaho	New York	Wisconsin
Illinois	North Carolina	Wyoming
Indiana	North Dakota	
Iowa	Ohio	
Kansas	Oklahoma	
Kentucky	Oregon	

B.

In the following jurisdictions, appropriate action is required to either file notice and/or pay fees for the Bonds before the Bonds may be sold or offered to anyone therein other than in exempt transactions. Pursuant to your request, no such action is being taken in these jurisdictions; therefore, no offers or sales of the Bonds may be made to anyone in these jurisdictions other than in exempt transactions:

Nevada

New Hampshire

SECTION II

PERMISSIBLE SALES BY PERSONS NOT REGISTERED OR LICENSED AS DEALERS OR BROKERS

It is assumed in this Section that the person who offers for sale or sells the Bonds in the jurisdiction is not registered or licensed as a dealer or broker therein.

In the following jurisdictions, no action need be taken to qualify the Bonds and, unless otherwise noted, the seller need not be registered or licensed as a dealer or broker to offer for sale or sell the Bonds to the persons and institutions described, as well as to dealers or brokers registered or licensed in such jurisdictions, subject to the conditions, if any, set forth in the footnotes:

Alabama: Any bank, savings institution, credit union, trust company, insurance company or investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Alabama has no place of business in Alabama and effects transactions in Alabama exclusively with or through issuers of the securities involved in the transactions and other broker-dealers.

Alaska Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Alaska has no place of business in Alaska and effects transactions in Alaska exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

Arizona Any bank, savings institution, trust company, insurance company or investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Arizona has no place of business in Arizona and effects transactions in Arizona exclusively through other broker-dealers.

Arkansas Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity, or any other person that may be deemed by the securities commissioner as an institutional buyer upon the basis of knowledge, experience, volume and number of transactions, and other securities background; *provided*, any seller who is not registered as a broker-dealer in Arkansas has no place of business in Arkansas and effects transactions in Arkansas exclusively with or through issuers of the

securities involved in the transactions, other broker-dealers or the institutions listed above.

California

(1) Any bank, savings and loan association, trust company, insurance company, investment company registered under the Investment Company Act of 1940, pension or profit-sharing trust (other than a pension or profit-sharing trust of the issuer, a self employed individual retirement plan or individual retirement account), other institutional investor or governmental agency or instrumentality as the Commissioner of Corporations may designate by rule, whether the purchaser is acting for itself or as trustee, or (2) any corporation with outstanding securities registered under Section 12 of the Securities Exchange Act of 1934 or any wholly owned subsidiary of the corporation that after the offer and sale will own directly or indirectly 100 percent of the outstanding capital stock of the issuer; *provided*, that the purchaser represents that it is purchasing for its own account (or for such trust account) for investment and not with a view to or for sale in connection with any distribution of the security; and *provided further*, the seller (i) is broker-dealer registered under the Securities Exchange Act of 1934 who has not previously had any certificate denied or revoked under the California Corporate Securities Law of 1968 or any predecessor statute and does not direct offers to sell or buy into California other than to broker-dealers or the institutional investors listed above, or (ii) has no place of business in California and either effects transactions exclusively with issuers of the securities involved in the transactions or other broker-dealers.

The other institutional investors and governmental agencies or instrumentalities designated by the Commissioner by rule being (a) any organization described in Section 501(c)(3) of the Internal Revenue Code, as amended December 29, 1981, which has total assets, including endowment, annuity and life income funds, of not less than \$5,000,000 according to its most recent audited financial statement, (b) any corporation with a consolidated net worth of not less than \$14,000,000 subject to certain conditions, and (c) any wholly-owned subsidiary of any institutional investor.

Colorado

Any financial or institutional investor, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Colorado is registered as a broker-dealer under the Securities Exchange Act of 1934, has no place of business in Colorado and effects transactions in Colorado exclusively with or through the issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

The term "financial or institutional investor" means any of the following, whether acting for itself or others in a fiduciary capacity: (a) a depository institution, (b) an insurance company; (c) a separate account of an insurance company; (d) an investment company registered under the federal Investment Company Act of 1940; (e) a business development company as defined in the federal Investment Company Act of 1940; (f) any private business development company as defined in the federal

Investment Advisers Act of 1940; (g) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of five million dollars or its investment decisions are made by a named fiduciary as defined in the federal Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the federal Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the federal Investment Advisers Act of 1940, a depository institution or an insurance company; (h) an entity, but not an individual, a substantial part of whose business activities consist of investing, purchasing, selling, or trading in securities of more than one issuer and not of its own issue and that has total assets in excess of five million dollars as of the end of its latest fiscal year; (i) a small business investment company licensed by the federal Small Business Administration under the federal Small Business Investment Act of 1958; and (j) any other institutional buyer); *provided* that the seller is registered as a broker-dealer under the Exchange Act and has no place of business in Colorado and the business is transacted in Colorado exclusively with issuers in transactions involving their own securities, other broker-dealers licensed or exempt from licensing in Colorado, or the institutions listed above.

“Depository institution” means a person that is organized or chartered, or is doing business or holds an authorization certificate, under the laws of a state or of the United States which authorizes the person to receive deposits, including deposits in savings, share, certificate, or other deposit accounts, and that is supervised and examined for the protection of depositors by an official or agency of a state or the United States; and a trust company or other institution that is authorized by federal or state law to exercise fiduciary powers of the type a national bank is permitted to exercise under the authority of the comptroller of the currency and is supervised and examined by an official or agency of a state or the United States, but the term does not include an insurance company or other organization primarily engaged in the insurance business.

Connecticut

Any bank and trust company, national banking association, savings bank, savings and loan association, federal savings and loan association, federal savings banks, credit union, federal credit union, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, as amended, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether such purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Connecticut has no place of business in Connecticut and effects transactions in Connecticut exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

Delaware

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Delaware has no place of business in Delaware and

effects transactions in Delaware exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

District of Columbia Any financial institution or institutional investor or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in District of Columbia has no place of business in District of Columbia and effects transactions in District of Columbia exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

The term “financial or institutional investor” means any of the following, whether acting for itself or others in a fiduciary capacity: (a) depository institution, (b) an insurance company, (c) a separate account of an insurance company, (d) an investment company registered under the Investment Company Act of 1940, (e) business development company as defined in the Investment Company Act of 1940, (f) employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$5,000,000 or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Act of 1974, that is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution, or an insurance company, (g) a “qualified institutional buyer” as defined in SEC Rule 144A, (h) a broker-dealer, (i) an “accredited investor” as defined in SEC Rule 501(a), or (j) a limited liability company with net assets of at least \$500,000.

“Depository institution” means (i) a person that is organized, chartered, or holds an authorization certificate under the laws of a state or of the United States to receive deposits, including a savings, share, certificate, or deposit account, and that is supervised and examined for the protection of depositors by an official or agency of a state or the United States; and (ii) a trust company or institution that is authorized by federal or state law to exercise fiduciary powers of the type that a national bank is permitted to exercise under the authority of the Comptroller of the Currency and is supervised and examined by an official or agency of a state or the United States.

Florida Any bank or trust company, savings institution, insurance company, dealer, investment company as defined by the Investment Company Act of 1940, or pension or profit-sharing trust, or qualified institutional buyer as defined by rule of the Financial Services Commission in accordance with Securities and Exchange Commission Rule 144A (17 CFR 230.144(A)(a), whether any of such entities is acting in its individual or fiduciary capacity; *provided* that such offer or sale of securities is not for the direct or indirect promotion of any scheme or enterprise with the intent of violating or evading any provision of the Florida Securities and Investor Protection Act.

Georgia	Any institutional investor ¹ , a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; <i>provided</i> , any seller who is not registered as a broker-dealer in Georgia has no place of business in Georgia, and the seller's only transactions effected in Georgia are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Georgia, or the institutions listed above.
Hawaii	Any institutional investor ¹ , a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; <i>provided</i> , any seller who is not registered as a broker-dealer in Hawaii has no place of business in Hawaii, and the seller's only transactions effected in Hawaii are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Hawaii, or the institutions listed above.
Idaho	Any institutional investor ¹ , a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; <i>provided</i> , any seller who is not registered as a broker-dealer in Idaho has no place of business in Idaho, and the seller's only transactions effected in Idaho are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Idaho, or the institutions listed above.
Illinois	Any corporation, bank, savings bank, savings institution, savings and loan association, trust company, insurance company, building and loan association or dealer; pension fund, pension trust, employees' profit-sharing trust, other financial institution or institutional investor, any government or political subdivision or instrumentality thereof, whether the purchaser is acting for itself or in some fiduciary capacity; any partnership or other association engaged as a substantial part of its business or operations in purchasing or holding securities; any trust in respect of which a bank or trust company is trustee or co-trustee; any entity in which at least 90% of the equity is owned by (i) persons described above, (ii) any natural person who has, or is reasonably believed to have, a net worth or joint net worth with that person's spouse, at the time of the offer, sale, or issuance, in excess of \$1,000,000 or any natural person who had, or is reasonably believed to have had, an individual income or joint income with that person's spouse, in excess of \$200,000 in each of the two most recent years and who reasonably expects, or is reasonably expected to have, an income in excess of \$200,000 in the current year or any person that is not a natural person and in which at least 90% of the equity interest is owned by natural persons who meet either of the tests set forth in this sentence, <i>provided</i> that such security is not offered or sold by means of any general advertising or general solicitation in Illinois, or (iii) directors, executive officers or general partners of the issuer of the securities being offered or sold, or any director, executive officer (i.e. the president, vice-president in charge of a principal business unit, division or function such as sales, administrations or finance, or any other person who performs a policy making function or similar functions for the issuer), or general partner of the issuer of the securities being offered or sold, any

director, executive officer, or general partner of a general partner of that issuer; any employee benefit plan within the meaning of Title I of ERISA if (i) the investment decision is made by a plan fiduciary as defined in Section 3(21) of ERISA and such plan fiduciary is either a bank, savings and loan association, insurance company, registered investment adviser or an investment adviser registered under the Investment Advisers Act of 1940, or (ii) the plan has total assets in excess of \$5,000,000, or (iii) in the case of a self-directed plan, investment decisions are made solely by persons that are described in this paragraph; any plan established and maintained by, and for the benefit of the employees of, any state or political subdivision or agency or instrumentality thereof if such plan has total assets in excess of \$5,000,000; or any organization, described in Section 501(c)(3) of the Internal Revenue Code of 1986, any Massachusetts or similar business trust, or any partnership, if such organization, trust, or partnership has total assets in excess of \$5,000,000.

Indiana Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Indiana has no place of business in Indiana and effects transactions in Indiana exclusively with or through issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Indiana, or the institutions listed above.

Iowa Any institutional investor², a person registered under the Investment Advisers Act of 1940, any other person exempted by rule adopted or order issued under this Act, or a person or class of persons who are granted this exemption by the Commissioner of Insurance or the deputy appointed pursuant to the Act, based upon factors of financial sophistication, net worth, and the amount of assets under investment; *provided*, any seller who is not registered as a broker-dealer in Iowa has no place of business in Iowa, and the seller's only transactions effected in Iowa are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Iowa, or the institutions listed above.

Kansas Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Kansas has no place of business in Kansas, and the seller's only transactions effected in Kansas are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Kansas, or the institutions listed above.

Kentucky Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Kentucky has no place of business in Kentucky and

effects transactions in Kentucky exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

Louisiana Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, as now or hereafter amended, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust, other financial institution, or a dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

Maine Any institutional investor³, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Maine has no place of business in Maine, and the seller's only transactions effected in Maine are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Maine, or the institutions listed above.

Maryland Any investment company as defined in the Investment Company Act of 1940, investment adviser with assets under management of not less than \$1,000,000, broker-dealer, bank, trust company, savings and loan association, insurance company, employee benefit plan with assets of not less than \$1,000,000, or governmental agency or instrumentality, whether acting for itself or as trustee or a fiduciary with investment control, or other institutional investor as designated by rule or order of the Commissioner; *provided*, any seller who is not registered as a broker-dealer in Maryland has no place of business in Maryland and effects transactions in Maryland exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

Massachusetts Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Massachusetts has no place of business in Massachusetts and effects transactions in Massachusetts exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

"Institutional buyer" includes, but is not limited to the following: (1) a Small Business Investment Company licensed by the U.S. Small Business Administration under the Small Business Investment Act of 1958, as amended; (2) a private business development company as defined in s.202(a)(22) of the Investment Advisors Act of 1940, as amended; (3) a Business Development Company as defined in s.2(a)(48) of the Investment Company Act of 1940, as amended; (4) an entity with total assets in excess of \$5 million and which is either: (a) a company (whether a corporation, a Massachusetts or similar business trust, partnership,

limited liability company or limited liability partnership) not formed for the specific purpose of acquiring the securities offered; a substantial part of whose business activities consists of investing, purchasing, selling or trading in securities issued by others and whose investment decisions made by persons who are reasonably believed by the seller to have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of investment; or (b) an organization described in Section 501(c)(3) of the Internal Revenue Code; and (5) a Qualified Institutional Buyer as defined in 17 CFR 230.144A(a).

Michigan Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Michigan has no place of business in Michigan, and the seller's only transactions effected in Michigan are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Michigan, or the institutions listed above.

Minnesota Any institutional investor¹, accredited investor as defined in Rule 501(a) of Regulation D adopted pursuant to the Securities Act of 1933, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Minnesota has no place of business in Minnesota, and the seller's only transactions effected in Minnesota are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Minnesota, or the institutions listed above.

Mississippi Any institutional investor¹, a person registered under the Investment Advisers Act of 1940, any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Mississippi has no place of business in Mississippi, and the seller's only transactions effected in Mississippi are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Mississippi, or the institutions listed above.

Missouri Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Missouri has no place of business in Missouri, and the seller's only transactions effected in Missouri are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Missouri, or the institutions listed above.

Montana Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Montana has no place of business in Montana and

effects transactions in Montana exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

Nebraska

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust ("*pension or profit-sharing trust*" means an employee benefit plan, as defined in Title I of the Employee Retirement Income Security Act of 1974, if (i) the investment decisions are made by a "*plan fiduciary*," as defined in Section 3(21) of ERISA, which is either a bank, insurance company or registered investment adviser or (ii) the employee benefit plan has total assets in excess of \$5,000,000) or other financial institution or institutional buyer, or an individual accredited investor, or a broker-dealer whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Nebraska has no place of business in Nebraska and effects transactions in Nebraska exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

"*Financial institution or institutional buyer*" means (i) any bank as defined in Section 3(a)(2) of the Securities Act of 1933, whether acting in its individual or fiduciary capacity; (ii) any insurance company as defined in Section 2(13) of the Securities Act of 1933; (iii) any business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940; and (iv) any small business investment company licensed by the United States Small Business Administration, pursuant to Section 301(c) or (d) of the Small Business Investment Company Act of 1958).

"*Individual accredited investor*" includes (i) any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer, (ii) any manager of a limited liability company that is the issuer of the securities being offered or sold (iii) any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his or her purchase, exceeds one million dollars, or (iv) any natural person who had an individual income in excess of two hundred thousand dollars in each of the two most recent years or joint income with that person's spouse in excess of three hundred thousand dollars in each of those years and has a reasonable expectation of reaching the same income level in the current year).

Nevada

Any financial or institutional investor or a broker-dealer; *provided*, any seller who is not registered as a broker-dealer in Nevada has no place of business in Nevada and effects transactions in Nevada exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above; *provided*, any seller who is not registered as a broker-dealer in Nevada (i) is registered or not required to be registered as a broker-dealer under the Securities Exchange Act of 1934, has no place of business in Nevada and effects transactions in Nevada exclusively with or through the issuers of the

securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Nevada, or the institutions listed above, or (ii) is licensed under the securities laws of a state in which he maintains a place of business and he offers and sells in Nevada to a person who is an existing customer of seller and whose principal place of business is not in Nevada.

“Financial or institutional investor” means a depository institution as defined in section 90.225; insurance company; a separate account of an insurance company, an investment company as defined in the Investment Company Act of 1940; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of \$5,000,000 or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution, or an insurance company, and any other institutional buyer, whether the purchaser is acting for itself or others in a fiduciary capacity other than as an agent).

New Hampshire

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, venture capital company which operates a small business investment under the Small Business Investment Act of 1958, as amended, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in New Hampshire has no place of business in New Hampshire and effects transactions in New Hampshire exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

New Jersey

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in New Jersey effects transactions in New Jersey exclusively with or through the issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

“Savings institution” means any savings and loan association or building and loan association operating pursuant to the Savings and Loan Act of New Jersey, any federal savings and loan association and any association or credit union organized under the laws of the United States or of any state whose accounts are insured by a federal corporation or agency.

New Mexico

Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in New Mexico has no place of business in New Mexico,

and the seller's only transactions effected in New Mexico are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in New Mexico, or the institutions listed above.

New York Any bank, corporation, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, whether the purchaser is acting for itself or in some fiduciary capacity, as part of a private placement of securities.

“Bank” means a state or national bank, trust company or savings institution incorporated under the laws and subject to the examination, supervision and control of any state or of the United States or of any insular possession thereof.

North Carolina An entity which has a net worth in excess of \$1,000,000 as determined by generally accepted accounting principles, a bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in North Carolina has no place of business in North Carolina and effects transactions in North Carolina exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

The term “entity” includes a corporation, joint-stock company, limited liability company, business trust, limited partnership or other partnership in which the interests of the partners are evidenced by a security, trust in which the interests of the beneficiaries are evidenced by a security, any other unincorporated organization in which two or more persons have a joint or common economic interest evidenced by a security, and governmental or political subdivision of a government.

North Dakota Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in North Dakota has no place of business in North Dakota, and the seller's only transactions effected in North Dakota are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in North Dakota, or the institutions listed above.

Ohio Any institutional investor or dealer.

“Institutional investor” means any corporation, bank, insurance company, pension fund or pension fund trust, employees’ profit sharing fund or employees’ profit sharing trust, any association engaged, as a substantial part of its business or operations, in purchasing or holding securities, or any trust in respect of which a bank is trustee or co-trustee.

Oklahoma Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Oklahoma has no place of business in Oklahoma, and the seller's only transactions effected in Oklahoma are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Oklahoma, or the institutions listed above.

Oregon Any bank, savings institution, trust company, insurance company, investment company, pension or profit-sharing trust, or other financial institution or institutional buyer (including, but not limited to, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, the United States Department of Veterans' Affairs and the Government National Mortgage Association), or a broker-dealer, mortgage broker or a mortgage banker, whether the purchaser is acting for itself or in a fiduciary capacity when the purchaser has discretionary authority to make investment decisions; *provided*, any seller who is not registered as a broker-dealer in Oregon has no place of business in Oregon and effects transactions in Oregon exclusively with or through other broker-dealers or the institutions listed above.

Pennsylvania Any institutional investor or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Pennsylvania has no place of business in Pennsylvania and effects transactions in Pennsylvania exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

"Institutional investor" means any bank, insurance company, pension or profit-sharing plan or trust (except a municipal pension plan or system), investment company as defined in the Investment Company Act of 1940, or any person, other than an individual, which controls any of the foregoing, the federal government, state, or any agency or political subdivision thereof, except public school districts of this State, or any person so designated by regulation of the Pennsylvania Securities commission. The other institutional investors designated by regulation of such commission are: (1) any corporation or business trust or wholly-owned subsidiary of such person (a) which has a tangible net worth, which shall include net worth less the amount of all items of goodwill, pre-operating, deferred and development expenses, patents, trademarks, licenses or other similar accounts, on a consolidated basis of not less than \$10,000,000, as reflected on its most recent audited financial statements dated not more than 16 months prior to the date of the transaction in which such person proposes to purchase securities, and (b) which has been in existence for 18 months; (2) any college, university or other public or private institution which has received exempt status under Section 501(c)(3) of the Internal Revenue Code of 1954 and which has total endowment or trust funds, including annuity and life income funds, of not less than \$5,000,000 according to its most recently audited financial

statements; *provided*, that the aggregate dollar amount of the securities being sold to such person shall not exceed 5% of such endowment or trust funds; (3) a wholly-owned subsidiary of any bank; (4) a person, except an individual or an entity whose security holders consist entirely of one individual or group of individuals who are related, which is organized primarily for the purpose of purchasing, in nonpublic offerings, securities of corporations or issuers engaged in research and development activities in conjunction with a corporation and which complies with certain conditions; (5) a Small Business Investment Company as defined in Section 103 of the Small Business Investment Act of 1958 which meets certain conditions; (6) a Seed Capital Fund, as defined in Section 2 and authorized in Section 6 of the Small Business Incubators Act; (7) a Business Development Credit Corporation, as authorized by the Business Development Credit Corporation Law; (8) a person whose security holders consist solely of institutional investors or broker-dealers; and (9) a person as to which the issuer reasonably believed qualified as an institutional investor at the time of the offer or sale of the securities on the basis of written representations made by the purchaser to the issuer).

“Bank” means a bank, savings bank, savings institution, savings and loan association, thrift institution, trust company or similar organization which is organized or chartered under the laws of a state or of the United States, is authorized to and receives deposits and is supervised and examined by an official or agency of a state or by the United States if its deposits are insured by the Federal Deposit Insurance Corporation or a successor authorized by Federal law.

Puerto Rico

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Companies Act of Puerto Rico, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Puerto Rico has no place of business in Puerto Rico and effects transactions in Puerto Rico exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

Rhode Island

Any broker-dealer or financial or institutional investor, *provided*, any seller who is not registered as a broker-dealer in Rhode Island is registered or exempt from registration under the Securities Exchange Act of 1934, has no place of business in Rhode Island and (i) effects transactions herein exclusively with the issuer of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Rhode Island, or the institutions listed above, or (ii) is licensed under the securities laws of a state in which he maintains a place of business and he offers and sells in Rhode Island to a person who is an existing customer of seller and whose principal place of business is not in Rhode Island.

“Financial or institutional investor” means any of the following, whether acting for itself or another in a fiduciary capacity: (i) a depository

institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) an employee pension, profit sharing or benefit plan if the plan has total assets in excess of five million dollars (\$5,000,000), or if investment decisions are made by a plan fiduciary, as defined in the Employee Retirement Income Security Act of 1974, which is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt under the Investment Advisers Act of 1940, a depository institution, or an insurance company; and (vi) any other institutional buyers under SEC Rule 144A.

“Depository institution” means: (i) a person which is organized, chartered, or holding an authorization certificate under the laws of a state or of the United States which authorizes the person to receive deposits, including a savings, share, certificate or deposit account, and which is supervised and examined for the protection of depositors by an official or agency of a state or the United States; and (ii) a trust company or other institution that is authorized by federal or state law to exercise fiduciary powers of the type a national bank is permitted to exercise under the authority of the comptroller of the currency and is supervised and examined by an official or agency of a state or the United States. *“Depository institution”* does not include an insurance company or other organization primarily engaged in the insurance business, or a Morris plan bank, industrial loan company, or a similar bank or company unless its deposits are insured by a federal agency.

South Carolina Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in South Carolina has no place of business in South Carolina, and the seller's only transactions effected in South Carolina are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in South Carolina, or the institutions listed above.

South Dakota Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in South Dakota has no place of business in South Dakota, and the seller's only transactions effected in South Dakota are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in South Dakota, or the institutions listed above.

Tennessee Any broker-dealer or institutional investor, *provided*, any seller who is not registered as a broker-dealer in Tennessee has no place of business in Tennessee, is registered as a broker-dealer with the Securities and Exchange Commission or the Financial Industry Regulatory Authority and effects transactions therein exclusively with or through the issuer of the securities involved in the transactions, other broker-dealers or the institutions listed above.

The term “*institutional investor*” means any bank, unless the bank is acting as a broker-dealer (“broker-dealer” means any person engaged in the business of effecting transactions in securities for the account of others, or any person engaged in the business of buying or selling securities issued by 1 or more other persons for such person’s own account and as part of a regular business rather than in connection with such person’s investment activities) trust company, insurance company, investment company registered under the Investment Company Act of 1940, as amended, a holding company which controls any of the foregoing, a trust or fund over which any of the foregoing has or shares investment discretion, a pension or profit-sharing plan, an institutional buyer (as the commissioner may further define by rule), or any other person engaged as a substantial part of its business in investing in securities unless such other person is within the definition of a broker-dealer in the first sentence of subdivision (3) (in which case such other person is not an institutional investor), in each case having a net worth in excess of one million dollars (\$1,000,000).

Texas

Any bank, trust company, building and loan association, insurance company, surety or guaranty company, savings institution, investment company as defined in the Investment Company Act of 1940, small business investment company as defined in the Small Business Investment Act of 1958, as amended, or any registered dealer actually engaged in buying and selling securities; *provided*, any seller who is not registered as a broker-dealer in Texas effects transactions to the institutions listed above or to any registered dealer actually engaged in buying and selling securities.

The term “savings institution” includes any federally chartered credit union, savings and loan association, or federal savings bank and any credit union or savings and loan association chartered under the laws of any state.

The preceding applies only to financial institutions or other institutional investors acting for its own account or as a bona fide trustee of a trust organized and existing other than for the purpose of acquiring the specific securities for which the seller is claiming an exemption (i.e., not acting only as agent for another purchaser that is not a financial institution or other institutional investor listed above).

Additionally, sales to: (1) an “accredited investor” (as defined in Rule 501 (a)(1)-(4), (7) and (8) promulgated by the Securities and Exchange Commission under the Securities Act of 1933) excluding, however, any self-directed employee benefit plan with investment decisions made solely by persons that are “accredited investors” as defined in Rule 501(a)(5)-(6); (2) any “qualified institutional buyer” (as defined in SEC Rule 144A(a)(1)); and (3) a corporation, partnership, trust, estate, or other entity (excluding individuals) having net worth of not less than \$5,000,000, or a wholly-owned subsidiary of such entity, as long as the entity was not formed for the purpose of acquiring the specific securities.

Utah Any depository institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, other financial institution or institutional investor or broker-dealer; *provided*, any seller who is not registered as a broker-dealer in Utah has no place of business in Utah and effects transactions in Utah exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

Vermont Any institutional investor¹, a person registered under the Investment Advisers Act of 1940 or any other person exempted by rule adopted or order issued under this Act; *provided*, any seller who is not registered as a broker-dealer in Vermont has no place of business in Vermont, and the seller's only transactions effected in Vermont are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Vermont, or the institutions listed above.

Virginia Any corporation, investment company, or pension or profit-sharing trust or a broker-dealer.

Washington Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Washington has no place of business in Washington and effects transactions in Washington exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

The Administrator has interpreted the term "*institutional buyer*" to mean: (1) a corporation, business trust, or partnership or wholly owned subsidiary of such an entity, which has been operating for at least 12 months and which has a net worth on a consolidated basis of at least \$10,000,000 as determined by the entity's most recent audited financial statements, such statements to be dated within 16 months of the transaction made in reliance upon this exemption; (2) any entity which has been granted exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986 and which has a total endowment or trust funds of \$5,000,000 or more according to its most recent audited financial statements, such statements to be dated within 16 months of the transaction made in reliance upon this exemption; or (3) any wholly owned subsidiary of a bank, savings institution, insurance company or investment company as defined in the Investment Company Act of 1940. The Administrator has further found that the term "institutional buyer" does not include a natural person, individual retirement account, Keogh account or other self-directed pension plan.

West Virginia Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or a broker-dealer, whether the purchaser is acting for itself or in

some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in West Virginia has no place of business in West Virginia and effects transactions in West Virginia exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

Wisconsin

Any institutional investor¹, a person registered under the Investment Advisors Act of 1940; any other person exempted by rule adopted or order issued under the Wisconsin Uniform Securities Law (the "Act"); accredited investor, as defined in Rule 501(a) adopted under the Securities Act of 1933, *provided* that prior to the sale in Wisconsin to an accredited investor described in Rule 501(a)(5) or (6) adopted under the Securities Act of 1933, the seller files a consent to service of process with the administrator in the form required under § 551.611 (failure to file the consent as required is a cause for administrative action by the administrator under § 551.604 but does not result in the loss of this exemption); *provided*, any seller who is not registered as a broker-dealer in Wisconsin has no place of business in Wisconsin, and the seller's only transactions effected in Wisconsin are with the issuers of the securities involved in the transactions, other broker-dealers licensed or not required to be licensed in Wisconsin, or the institutions listed above.

Wyoming

Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or qualified institutional buyer under SEC Rule 144, or a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity; *provided*, any seller who is not registered as a broker-dealer in Wyoming has no place of business in Wyoming and effects transactions in Wyoming exclusively with or through issuers of the securities involved in the transactions, other broker-dealers or the institutions listed above.

¹ The term "institutional investor" means any of the following, whether acting for itself or for others in a fiduciary capacity: (a) a depository institution (bank, savings institution, trust company, credit union or similar institution that is organized or chartered under the laws of a state or of the United States, authorized to receive deposits and supervised and examined by an official or agency of a state or the United States if its deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund or a successor authorized by federal law) or international banking institution (an international financial institution of which the United States is a member and whose securities are exempt from registration under the securities act of 1933); (b) insurance company; (c) separate account of an insurance company; (d) an investment company as defined in the Investment Company Act of 1940; (e) a broker-dealer registered under the Securities Exchange Act of 1934, 15. U.S.C. Section 78a, et seq; (f) an employee pension, profit-sharing, or benefit plan if total assets of plan exceed \$10,000,000 or its investment decisions are made by a named fiduciary as defined in the Employee Retirement Income Security Act of 1974 (ERISA), that is a broker-dealer registered under the SEC Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisors Act of 1940, an investment adviser registered under the Act, a depository institution, or an insurance company; (g) a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary as defined in the Employee Retirement Income Security Act of 1974 (ERISA), that is a broker-dealer registered under the SEC Act of 1934, an investment adviser registered or exempt from

registration under the Investment Advisers Act of 1940, an investment adviser registered under the Act, a depository institution, or an insurance company; (h) a trust if it has total assets in excess of \$10,000,000, its trustee is a depository institution, and its participants are exclusively plans of the types identified in paragraphs (f) or (g), regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (i) an organization described in subsection 501(c)(3) of the IRS, 26 U.S.C. 501(c)(3), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$10,000,000; (j) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 with total assets exceeding \$10,000,000; (k) a private business development company, as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets exceeding \$10,000,000; (l) a federal covered investment adviser acting for its own account; (m) a “qualified institutional buyer” as defined in rule 144(a)(1), other than rule 144A(a)(1)(i)(H), adopted under the Securities Act of 1933.; (n) a “major U.S. institutional buyer” as defined in rule 15a-6(b) (4)(i) adopted under the Securities Exchange Act of 1934; (o) any other person, other than an individual, of institutional character with total assets exceeding \$10,000,000, not organized for the specific purpose of evading this Act; (p) any other person specified by rule adopted or order issued under the Act.

² The term “institutional investor” means any of the following whether acting for itself or for others in a fiduciary capacity, whether acting for itself or for others in a fiduciary capacity: (a) depository institution (bank, savings institution, trust company, credit union or similar institution that is organized or chartered under the laws of a state or of the United States, authorized to receive deposits and supervised and examined by an official or agency of a state or the United States if its deposits or share accounts are insured to the maximum amount authorized by statute by the FDIC, the National Credit Union Share Insurance Fund or a successor authorized by federal law, or international banking institution (an international financial institution of which the United States is a member and whose securities are exempt from registration under the securities act of 1933), (b) insurance company, (c) a separate account of an insurance company, (d) an investment company (as defined in the Investment Company Act of 1940), (e) a broker-dealer registered under the SEC Act of 1934, (f) an employee pension, profit-sharing, or benefit plan if total assets of plan exceed \$5,000,000 or its investment decisions are made by a named fiduciary as defined in the Employee Retirement Income Security Act of 1974 (ERISA), that is a broker-dealer registered under the SEC Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Act, a depository institution, or an insurance company; (g) a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees if the plan has total assets in excess of \$5,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary as defined in the Employee Retirement Income Security Act of 1974 (ERISA), that is a broker-dealer registered under the SEC Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Act, a depository institution, or an insurance company; (h) a trust if it has total assets in excess of \$5,000,000, its trustee is a depository institution, and its participants are exclusively plans of the types identified in paragraphs (f) or (g), regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (i) an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets exceeding \$5,000,000; (j) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958, with total assets exceeding \$5,000,000; (k) a private business development company, as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, 15 USC 80b-2(a)(22), with total assets exceeding \$5,000,000; (l) a federal covered investment adviser acting for its own account; (m) a “qualified institutional buyer” as defined in rule 144(a)(1), other than rule 144A(a)(1)(i)(H), adopted under the Securities Act of 1933; (n) a “major U.S. institutional buyer” as defined in rule 15a-6(b) (4)(i) adopted under the Securities Exchange Act of 1934; (o) any other person, other than an individual, of institutional character with total assets exceeding \$5,000,000 not organized for the specific purpose of evading this Act, (p) any other person specified by rule adopted or order issued under the Act.

³ The term “institutional investor” means any of the following, whether acting for itself or for others in a fiduciary capacity: (a) a depository institution (bank, savings institution, trust company, credit union or similar institution that is organized or chartered under the laws of a state or of the United States, authorized to receive deposits and supervised and examined by an official or agency of a state or the United States if its deposits or share accounts are insured to the maximum amount authorized by statute by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund or a successor authorized by federal law) or international banking institution (an international financial institution of which the United States is a member and whose securities are exempt from registration under the securities act of 1933); (b) insurance company; (c) separate account of an insurance company; (d) an investment company as defined in the Investment Company Act of 1940; (e) a broker-dealer registered under the Securities Exchange Act of 1934, 15. U.S.C. Section 78a, et seq; (f) an employee pension, profit-sharing, or benefit plan if total assets of plan exceed \$10,000,000 or its investment decisions are made by a named fiduciary as defined in the Employee Retirement Income Security Act of 1974 (ERISA), that is a broker-dealer registered under the SEC Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Act, a depository institution, or an insurance company; (g) a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees if the plan has total assets in excess of \$10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary as defined in the Employee Retirement Income Security Act of 1974 (ERISA), that is a broker-dealer registered under the SEC Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the Act, a depository institution, or an insurance company; (h) a trust if it has total assets in excess of \$10,000,000, its trustee is a depository institution, and its participants are exclusively plans of the types identified in paragraphs (f) or (g), regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (i) an organization described in subsection 501(c)(3) of the IRS, 26 U.S.C. 501(c)(3), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$10,000,000; (j) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 with total assets exceeding \$5,000,000; (k) a private business development company, as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets exceeding \$5,000,000; (l) a federal covered investment adviser acting for its own account; (m) a “qualified institutional buyer” as defined in rule 144(a)(1), other than rule 144A(a)(1)(i)(H), adopted under the Securities Act of 1933.; (n) a “major U.S. institutional buyer” as defined in rule 15a-6(b) (4)(i) adopted under the Securities Exchange Act of 1934; (o) any other person, other than an individual, of institutional character with total assets exceeding \$10,000,000, not organized for the specific purpose of evading this Act; (p) any other person specified by rule adopted or order issued under the Act.

Copy of audited Financial Statements of Water System of the City

Please see Appendix B to Official Statement at Tab No. 12

RECEIPT OF THE TRUSTEE

The undersigned, a duly authorized representative of Wells Fargo Bank, National Association, as trustee for the Modesto Irrigation District Financing Authority (the "Authority"), hereby acknowledges receipt from Citigroup Global Markets Inc. of \$48,668,100.23 (comprising the purchase price for the following bonds in the amount of \$48,823,332.86, less the payment of premiums with respect to the Municipal Bond Insurance Policy and Municipal Bond Debt Service Reserve Insurance Policy in the aggregate amount of \$155,232.63.00):

Title of Bonds: Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds")

Principal Amount: \$43,270,000

Date of Bonds: August 14, 2013

The undersigned hereby further acknowledges receipt from the Modesto Irrigation District (the "District") of \$5,468,571.88 to be applied to the redemption of the Prior Water Bonds.

The undersigned certifies that the Trustee has authenticated and delivered \$43,270,000 in aggregate principal amount of the Bonds pursuant to and in accordance with the Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), by and among Wells Fargo Bank, National Association, as trustee, the Authority and the District. All capitalized terms used herein which are not otherwise defined shall have the meanings set forth in the Trust Agreement.

Dated: August 14, 2013.

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as trustee

By _____


Authorized Representative

RECEIPT FOR BONDS

The undersigned hereby acknowledges receipt from Wells Fargo Bank, National Association, as trustee (the "Trustee") under that certain Trust Agreement (the "Trust Agreement"), among the Modesto Irrigation District Financing Authority (the "Authority"), the Modesto Irrigation District (the "District") and the Trustee, dated as of August 1, 2013, of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds"), in fully registered form, all dated in accordance with the Trust Agreement, in the aggregate principal amount of \$43,270,000, and of the opinions, certificates, documents and other instruments delivered with the Bonds on the date hereof, which are in satisfactory form and in compliance with the Purchase Contract, dated July 31, 2013, between the undersigned and the Authority.

Dated: August 14, 2013.

CITIGROUP GLOBAL MARKETS INC.

By: _____


Authorized Signatory

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
2.00%	September 1, 2014	August 14, 2013	607769 EW2

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: THREE MILLION NINE HUNDRED SEVENTY THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
5.00%	September 1, 2015	August 14, 2013	607769 EX0

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FOUR MILLION ONE HUNDRED TEN THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
5.00%	September 1, 2016	August 14, 2013	607769 EY8

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FOUR MILLION THREE HUNDRED TWENTY THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
5.00%	September 1, 2017	August 14, 2013	607769 EZ5

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FOUR MILLION FIVE HUNDRED THIRTY-FIVE THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
5.00%	September 1, 2018	August 14, 2013	607769 FA9

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FOUR MILLION SEVEN HUNDRED SIXTY THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
5.00%	September 1, 2019	August 14, 2013	607769 FB7

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION FIVE THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
5.00%	September 1, 2020	August 14, 2013	607769 FC5

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION TWO HUNDRED SIXTY THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
5.00%	September 1, 2021	August 14, 2013	607769 FD3

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: FIVE MILLION FIVE HUNDRED FIFTEEN THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BOND
SERIES 2013G

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE FULL FAITH AND CREDIT OF ITS MEMBERS (INCLUDING THE DISTRICT) IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER IDENTIFIED IS PLEDGED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP</u>
5.00%	September 1, 2022	August 14, 2013	607769 FE1

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT FIVE MILLION SEVEN HUNDRED NINETY-FIVE THOUSAND DOLLARS

The MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter identified) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal amount specified above, together with interest on such principal amount from the interest payment date next preceding the date of registration hereof (unless this Bond is registered as of an interest payment date, in which event this Bond shall bear interest from such interest payment date or unless this Bond is registered on or before February 15, 2014, in which event this Bond shall bear interest from August 14, 2013); provided, however, that if, as shown by the records of Wells Fargo Bank, National Association, as trustee (the "Trustee"), interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, from August 14, 2013. Interest on this Bond shall be paid on March 1, 2014, and semiannually thereafter on each September 1 and March 1. Interest due on or before maturity or prior redemption of this Bond shall be payable only by check mailed to the registered owner hereof. The principal hereof is payable in lawful money of the United States of America at the principal corporate trust office of the Trustee in Minneapolis, Minnesota.

This Bond is one of a duly authorized issue of bonds of the Authority designated as the "Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G" (the "Bonds") in the aggregate principal amount of forty-three million two hundred seventy thousand dollars (\$43,270,000) and is issued under and pursuant to the provisions of the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of a Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), among the Authority, the District and the Trustee. Copies of the Trust Agreement are on file at the corporate trust office of the Trustee in San Francisco, California. Reference is hereby made to the Trust Agreement and to any and all amendments thereof and supplements thereto for a description of the covenants and pledges securing the Bonds, for the nature, extent and manner of enforcement of such covenants and pledges, for the rights and remedies of the Trustee and the registered owners of the Bonds with respect thereto and for other conditions and terms upon which the Bonds are issued. To the extent and in the manner permitted by the Trust Agreement, the provisions of the Trust Agreement may be amended or supplemented by the parties thereto, but no such amendment or supplement shall (1) extend the stated payment date of this Bond, or reduce the rate of interest hereon, or extend the time of payment of such interest, or reduce the amount of principal hereof, or reduce any redemption premium hereon, without the prior written consent of the registered owner hereof, or (2) reduce the percentage of registered owners whose consent is required for the execution of any amendment of or supplement to the Trust Agreement, or (3) modify any rights or obligations of the Trustee without its prior written consent thereto.

The Bonds are issued to provide funds to refinance a portion of the costs of acquisition and construction of a surface water treatment plant and distribution facilities of the District (the "Project"). The Bonds are special, limited obligations of the Authority and are payable, as to interest thereon and principal thereof, solely from moneys held in certain funds and accounts pursuant to the Trust Agreement and the revenues derived from Installment Payments and other payments made by the District pursuant to the Installment Purchase Contract, dated as of November 1, 1992, and amended and restated as of July 1, 1995 and further amended and restated as of February 1, 1998 and further amended and restated as of August 1, 2013 (the "Installment Purchase Contract"), by and between the District and the Authority (as more fully defined in the Trust Agreement, the "Revenues"), and the Authority is not obligated to pay the principal of or interest on the Bonds except from the Revenues. All Bonds are equally and ratably secured in accordance with the terms and conditions of the Trust Agreement by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the principal of and interest on the Bonds as provided in the Trust Agreement. The obligation of the District to make the Installment Payments is a special obligation of the District payable solely from certain payments made by the City of Modesto to the District pursuant to the Treatment and Delivery Agreement (as that term is defined in the Trust Agreement) and the other funds provided for in the Installment Purchase Contract and the Trust Agreement, and does not constitute a debt of the District or of the Authority or any of its members or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. No director, officer or employee of the Authority or the District shall be individually or personally liable for the payment of the principal of, the redemption premiums, if any, or interest on the Bonds, but nothing contained

herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

The Bonds are authorized to be issued, executed and delivered in the form of fully registered Bonds in Authorized Denominations (as defined in the Trust Agreement). Subject to the conditions and terms and upon payment of the charges, if any, provided in the Trust Agreement, any Bond may, in accordance with the terms of the Trust Agreement, be transferred, upon the books of the Trustee required to be kept pursuant to the provisions of the Trust Agreement, by the person in whose name it is registered, in person or by the attorney of such person duly authorized in writing, upon surrender of such Bond for cancellation, accompanied by a duly executed written instrument of transfer in a form approved by the Trustee. No transfers of Bonds shall be required to be made after the close of business on the fifteenth day of the calendar month immediately preceding the interest payment date and prior to the interest payment date or during the period established by the Trustee for selection of Bonds for redemption. No registration of transfer shall be made of any Bond selected for redemption.

The Bonds are subject to redemption prior to their respective stated maturity dates under the circumstances and upon the conditions and terms prescribed in the Trust Agreement and the Installment Purchase Contract. The Bonds shall be selected for redemption in accordance with the Trust Agreement. Notices of redemption shall be mailed, first class postage prepaid, not less than 30 days nor more than 60 days prior to the redemption date to the registered owners of any Bonds designated for redemption at their addresses appearing on the books required to be kept by the Trustee.

The registered owner of this Bond shall have no right to enforce the provisions of the Trust Agreement or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under and as defined in the Trust Agreement, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Trust Agreement. If an Event of Default occurs and is continuing, the principal of all Bonds then outstanding under the Trust Agreement may become due and payable upon the conditions and in the manner and with the effect provided in the Trust Agreement.

The Authority and any agent of the Authority and the Trustee may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond is overdue, and the Authority, the Trustee and any such agent shall not be affected by any notice to the contrary.

The Trust Agreement prescribes the manner in which it may be discharged and after which the Bonds shall no longer be secured by or entitled to the benefits of the Trust Agreement, except for the purposes of registration and exchange of Bonds and of payment of the principal of, premium, if any, and interest on the Bonds as the same becomes due and payable, including a provision that under certain circumstances the Bonds shall be deemed to be paid if certain securities, maturing as to principal and interest in such amounts and at such times as to insure the availability of sufficient moneys to pay the principal of, premium, if any, and interest on the Bonds and all required fees, deposited with the Trustee.

THE AUTHORITY HEREBY CERTIFIES that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement, to have been performed, to have happened and to exist precedent to and in the connection with the issuance of this Bond, have been performed, have happened and do exist in regular and due time, form and manner as required by law, and that the amount of this Bond, together with all other bonds issued under the Trust Agreement, is not in excess of the amount of Bonds authorized to be issued thereunder.

IN WITNESS WHEREOF, the Modesto Irrigation District Financing Authority has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the Interim Treasurer of the Authority and countersigned by the facsimile signature of the Secretary of the Authority, and has caused this Bond to be dated as of the issue date specified above.

MODESTO IRRIGATION DISTRICT
FINANCING AUTHORITY

By: *Don Deem*
Interim Treasurer

Countersigned:


Pat Caldwell Mills
Secretary

Specimen

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Trust Agreement which has been authenticated and registered on August 14, 2013.

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Trustee

By:  _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto _____ the within Bond and do(es) hereby irrevocably constitute and appoint _____ attorney to transfer the same on the bond register of the Trustee, with full power of substitution in the premises.

Dated: _____

SIGNATURE GUARANTEED BY:

NOTE: The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever, and the signature(s) must be guaranteed by an eligible guarantor institution.

Social Security Number, Taxpayer Identification Number or other identifying number of Assignee: _____

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the District or the Trustee for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof Cede & Co., has an interest herein.

STATEMENT OF INSURANCE

Assured Guaranty Municipal Corp. (“AGM”), New York, New York, has delivered its municipal bond insurance policy (the “Policy”) with respect to the scheduled payments due of principal of and interest on the Bonds maturing on September 1 of the years 2019 through 2022, inclusive (the “Insured Bonds”) to Wells Fargo Bank, National Association, San Francisco, California, or its successor, as paying agent for the Insured Bonds (the “Paying Agent”). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from AGM or the Paying Agent. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Bond acknowledges and consents to the subrogation rights of AGM as more fully set forth in the Policy.

Specimen

**City of Modesto
Office of the City Attorney**

Susana Alcalá Wood
City Attorney

Roland R. Stevens
Special Counsel



Senior Deputy City Attorneys
David Cervantes
Richard B. Evans
James F. Wilson
Deputy City Attorneys
Tara M. Davis

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Hearing and Speech Impaired Only - TDD 209/526-9211

August 14, 2013

Citigroup Global Markets Inc.
Los Angeles, California

Assured Guaranty Municipal Corp.
New York, New York

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds
Series 2013G

Ladies and Gentlemen:

I am the City Attorney for the City of Modesto (the "City"). This opinion is rendered in connection with the issuance of \$43,270,000 in aggregate principal amount of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds"), which issuance was approved by resolution of the City Council of the City (the "City Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Contract, dated July 31, 2013 between Citigroup Global Markets Inc. and the Modesto Irrigation District Financing Authority (the "Authority") for the sale of the Bonds.

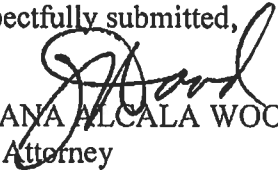
In rendering this opinion, I have examined the following documents: (i) the City Resolution; (ii) the Amended and Restated Treatment and Delivery Agreement executed and delivered during 2005 by the Modesto Irrigation District and the City, as amended by the Financing Amendments to Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as amended, the "Treatment and Delivery Agreement"); (iii) the Continuing

Disclosure Agreement (the "Continuing Disclosure Agreement"), dated August 14, 2013, by and between the City and Wells Fargo Bank, National Association, as dissemination agent, and (iv) the Official Statement dated July 31, 2013 (the "Official Statement"), relating to the Bonds. In addition, I have examined such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein.

Based on the foregoing, I am of the opinion that:

1. The City is, and was at all relevant times, a charter city and municipal corporation duly organized and validly existing under the laws of the State of California.
2. The City Resolution was duly adopted at a meeting of the City Council of the City which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the City Resolution is in full force and effect and has not been modified, amended or rescinded as of the date hereof.
3. The adoption of the City Resolution, the execution and delivery of the Continuing Disclosure Agreement, and compliance by the City with the foregoing and with the Treatment and Delivery Agreement, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City, a breach or default under any agreement or instrument to which the City is a party or by which it is bound or, to the best of my knowledge, any existing law, regulation, court order or consent decree to which the City is subject.
4. The City is in compliance with all material terms of the Treatment and Delivery Agreement to be complied with by the City and such document is in full force and effect as to the City.
5. Except as described in the Official Statement, no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the Continuing Disclosure Agreement and the Treatment and Delivery Agreement, or for the adoption of the City Resolution which has not been obtained.
6. There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending (with service of process having been accomplished) or, to the current actual knowledge of such counsel after reasonable investigation, threatened against or affecting the City, in any way contesting or affecting the validity of the Treatment and Delivery Agreement.

Respectfully submitted,


SUSANA ALCALA WOOD
City Attorney



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 555 CALIFORNIA STREET
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BEIJING	HONG KONG	SHANGHAI
BOSTON	HOUSTON	SINGAPORE
BRUSSELS	LONDON	SYDNEY
CHICAGO	LOS ANGELES	TOKYO
DALLAS	NEW YORK	WASHINGTON, D.C.
FRANKFURT	PALO ALTO	
GENEVA	SAN FRANCISCO	

FOUNDED 1866

August 14, 2013

Citigroup Global Markets Inc.
 Los Angeles, California

Assured Guaranty Municipal Corp.
 New York, New York

Modesto Irrigation District Financing Authority
 Domestic Water Project Refunding Revenue Bonds
Series 2013G

Ladies and Gentlemen:

We have acted as special counsel for the City of Modesto (the "City") in connection with the issuance of \$43,270,000 in aggregate principal amount of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Contract, dated July 31, 2013 between Citigroup Global Markets Inc. and the Modesto Irrigation District Financing Authority (the "Authority") for the sale of the Bonds.

In rendering this opinion, we have examined the following documents: (i) the Amended and Restated Treatment and Delivery Agreement executed and delivered during 2005 by the Modesto Irrigation District and the City, as amended by the Financing Amendments to Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as amended, the "Treatment and Delivery Agreement"); (ii) the Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), dated August 14, 2013, by and between the City and Wells Fargo Bank, National Association, as dissemination agent, and (iii) the Official Statement dated July 31, 2013 (the "Official Statement"), relating to the Bonds.

To assist us in our participation with others in, among other things, the Authority's preparation of its Official Statement, we held discussions with, among others, Bond Counsel, representatives of the Authority, legal counsel to the Authority, representatives of the City, the City Attorney, the City's and the Authority's financial advisor, the Underwriter, and Underwriter's Counsel, and received from such parties various documents, written reports, financial statements and other material. The statements made and the information contained in portions of the Official Statement and, in particular, those relating to the City and the City's Water Utility System were on numerous occasions reviewed for their accuracy, completeness and materiality by responsible representatives of the City, and such representatives have certified

or opined as of the date hereof as to the accuracy and completeness of such portions of the Official Statement. As we do not serve as general counsel to the City and otherwise would not have any direct knowledge of such statements and information, we have relied upon such certifications and opinions of or information provided by such City representatives, without any independent investigation of such matters.

In addition, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such other documents, legal opinions, instruments and records, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion, and we have assumed, but have not independently verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not independently verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without independent investigation or verification upon, and assumed the accuracy and completeness of, certificates, letters (including opinion letters), and oral and written statements and representations of public officials, officers and other representatives of the City, the City Attorney, representatives of the Authority, counsel for the Authority, and others.

Based upon and subject to the foregoing and the qualifications respecting the scope and nature of our engagement, we are of the opinion that:

1. The adoption of the City Resolution, the execution and delivery of the Continuing Disclosure Agreement, and compliance by the City with the foregoing and with the Treatment and Delivery Agreement, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City, a breach or default under any bond indenture, bond resolution or bond trust agreement of the City.

2. The Official Statement has been duly authorized, executed and delivered, and the Continuing Disclosure Agreement and the Treatment and Delivery Agreement have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, the Continuing Disclosure Agreement and the Treatment and Delivery Agreement constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought and to the limitations on legal remedies against public agencies in the State of California.

Further, we advise you that during the course of our representation of the City as Special Counsel on this matter, without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, no facts came to the attention of the attorneys in our firm rendering legal services in connection with such

representation that caused us to believe that the information contained in the Official Statement relating to the City and the City's Water Utility System (excluding therefrom any reports, financial or statistical data and forecasts, financial statements, numbers, estimates, assumptions or expressions of opinion in or incorporated by reference in the Official Statement, the information relating to DTC and the book-entry system, Assured Guaranty Municipal Corp., the Policy and the Reserve Policy, as to which no opinion is expressed), as of the date thereof and the Closing Date, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

This letter is issued as of the date hereof, and we assume no obligation to update or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention with respect to the statements expressed above, including any changes in applicable law that may hereafter occur.

The opinions expressed and the statements made herein are expressed and made as of the time of closing of the sale of the Bonds to the Underwriter on the date hereof. Such opinions and statements may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after such time. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this letter in light of such actions or events or for any other reason. Our engagement with respect to this matter has terminated as of the date hereof.

We are not expressing any opinion or advice with respect to the authorization, execution, delivery or validity of the Bonds, or the exclusion from gross income for federal, State or local income tax purposes of interest on the Bonds.

This letter is being delivered to you solely for your benefit and may not be used, circulated, quoted, otherwise referred to for any other purpose, or relied upon by anyone else (including, but not limited to, any person who acquires any Bonds from the Underwriter) without our prior written consent, except that reference may be made to it in any list of closing documents pertaining to the issuance of the Bonds. No attorney-client relationship exists or has existed between our firm and the addressees hereof in connection with the issuance and sale of the Bonds or by virtue of this letter. This letter is not intended to and may not be relied upon by owners of the Bonds or by any other party to whom it is not specifically addressed.

Respectfully submitted,

Sidley Austin LLP

August 14, 2013

Citigroup Global Markets Inc.
Los Angeles, California

Assured Guaranty Municipal Corp., as bond insurer
New York, New York

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds
Series 2013G

Ladies and Gentlemen:

As General Counsel to the Modesto Irrigation District (the “District”), I have acted as counsel to the Modesto Irrigation District Financing Authority (the “Authority”), a joint exercise of powers authority organized and existing pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California, as amended. This opinion is rendered in connection with the issuance of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the “Series 2013 Water Bonds”).

In rendering this opinion, I have examined the following documents: (i) the Trust Agreement, dated as of August 1, 2013 (the “Trust Agreement”) and entered into by and among the Authority, the District and Wells Fargo Bank, National Association, as Trustee (the “Trustee”); (ii) the Installment Purchase Contract, dated as of August 1, 2013, by and between the Authority and the District (the “Installment Purchase Contract”); (iii) the Purchase Contract dated July 31, 2013 (the “Purchase Contract”) and entered into by the Authority and Citigroup Global Markets Inc.; and (iv) the Official Statement dated July 31, 2013 (the “Official Statement”), relating to the Series 2013 Water Bonds. In addition, I have examined such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein.

Based on the foregoing, I am of the opinion that:

- (1) The Authority is a joint exercise of powers authority duly organized under the laws of the State of California.
- (2) The resolution of the Authority approving and authorizing the execution and delivery of the Trust Agreement, the Installment Purchase Contract, the Purchase

Contract and the Official Statement by the Authority (the "Resolution") was duly adopted at a meeting of the Board of Directors of the Authority, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

(3) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending (with service of process having been accomplished) or, to my current actual knowledge after reasonable investigation, threatened against or affecting the Authority, in any way contesting or affecting the validity of the Series 2013 Water Bonds, the Trust Agreement, the Installment Purchase Contract or the Purchase Contract.

(4) The execution and delivery of the Trust Agreement, the Installment Purchase Contract, the Purchase Contract and the Official Statement by the Authority, the adoption of the Resolution, and compliance by the Authority with the provisions of the foregoing, as appropriate, under the circumstances contemplated thereby, does not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party (and of which I have current actual knowledge after reasonable investigation) or by which it is bound (and of which I have current actual knowledge after reasonable investigation) or any existing law, regulation, court order or consent decree to which the Authority is subject.

(5) The Official Statement has been duly authorized, executed and delivered, and the Trust Agreement, the Installment Purchase Contract and the Purchase Contract have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, the Trust Agreement, the Installment Purchase Contract and the Purchase Contract constitute legal, valid and binding agreements of the Authority, enforceable in accordance with their respective terms, subject in each case to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought. The enforceability of the foregoing agreements may be subject or limited by the unenforceability under certain circumstances of provisions imposing penalties, forfeitures or late payment charges upon delinquency in payment or the occurrence of a default, and no opinion is expressed as to any indemnification provisions contained therein.

(6) Except as described in the Official Statement, no authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the Trust Agreement, the Installment Purchase Contract, the Official Statement or the Purchase Contract or for the adoption of the Resolution which has not been obtained, provided that no opinion is expressed with respect to qualification under Blue Sky or other state securities laws.

(7) Without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement and based upon the information made available to me in the course of my participation in the preparation of the Official Statement as counsel for the Authority, including certificates of officials of the City of Modesto (the "City") and upon the opinions of the City Attorney of the City and Sidley Austin LLP relating to the information in the Official Statement relating to the City and the City's Water Utility System, nothing has come to my attention which would cause me to believe that the Official Statement (excluding therefrom the financial statements and the statistical data included in the Official Statement, as to which no opinion is expressed), as of the date thereof and the date hereof, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(8) The assignment of rights by the Authority to the Trustee pursuant to the Trust Agreement is effective to grant to the Trustee all of the rights granted thereby (including the right to receive payments paid by District) free and clear of any lien or security interest or other claim of any third party or entity claiming by or through the Authority other than as set forth in the Official Statement.

Respectfully submitted,



Joy A. Warren, General Counsel

August 14, 2013

Citigroup Global Markets Inc.
Los Angeles, California

Assured Guaranty Municipal Corp., as bond insurer
New York, New York

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds
Series 2013G

Ladies and Gentlemen:

I am General Counsel to the Modesto Irrigation District (the “District”), an irrigation district organized and existing pursuant to Division 11 of the Water Code of the State of California, as amended. This opinion is rendered in connection with the issuance of the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G in the aggregate principal amount of \$43,270,000 (the “Series 2013 Water Bonds”).

In rendering this opinion, I have examined the following documents: (i) the Trust Agreement, dated as of August 1, 2013 (the “Trust Agreement”) entered into among the Modesto Irrigation District Financing Authority (the “Authority”), the District and Wells Fargo Bank, National Association, as trustee (the “Trustee”); (ii) the Installment Purchase Contract, dated as of August 1, 2013 (the “Installment Purchase Contract”), by and between the Authority and the District; (iii) the Purchase Contract, dated July 31, 2013 (the “Purchase Contract”) and entered into by and between the Authority and Citigroup Global Markets Inc.; (iv) the Official Statement dated July 31, 2013 (the “Official Statement”), relating to the Series 2013 Water Bonds; and (v) the Amended and Restated Treatment and Delivery Agreement entered into in 2005 with the City of Modesto (the “City”), and the Financing Amendments to such Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007 (as amended, the “Treatment and Delivery Agreement”). In addition, I have examined such other documents and instruments, including certificates of public officials, and have made such investigations of law and of fact as I have deemed necessary or appropriate for the purpose of rendering the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Contract.

Based on the foregoing, I am of the opinion that:

1. The District is, and was at all relevant times, an irrigation district duly organized and validly existing under the laws of the State of California.

2. The resolution of the District approving and authorizing the execution and delivery of the Official Statement, the Trust Agreement and the Installment Purchase Contract by the District (the "District Resolution") was duly adopted at a meeting of the Board of Directors of the District, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

3. The District has complied with all the material terms of the Installment Purchase Contract and the Treatment and Delivery Agreement to be complied with by the District prior to or concurrently with the Closing and such documents are in full force and effect as to the District.

4. Without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement and based upon the information made available to me in the course of my participation in the preparation of the Official Statement as counsel for the District, including certificates of officials of the City and upon the opinions of the City Attorney of the City and Sidley Austin LLP relating to the information in the Official Statement relating to the City and the City Municipal Water Utility System, nothing has come to my attention which would cause me to believe that the information contained in the Official Statement relating to the District (excluding therefrom the financial statements and the statistical data included in the Official Statement, as to which no opinion is expressed), as of the date thereof and the date hereof, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

5. There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending (with service of process having been accomplished) or, to my current actual knowledge after reasonable investigation, threatened against or affecting the District, in any way contesting or affecting the validity of the Installment Purchase Contract.

6. Under the laws of the State of California, the District has the authority to fix and collect charges for water service pursuant to the Treatment and Delivery Agreement and is not presently subject to the regulatory jurisdiction of any state, regional or local governmental regulatory authority in connection with fixing and collecting such charges, other than those approvals that have been obtained or will be given by the Board of Directors of the District and, to my current actual knowledge after reasonable investigation, no legislation is proposed or pending to restrict or limit such rates and charges except as set forth in the Official Statement.

Respectfully submitted,



Joy A. Warren, General Counsel



August 14, 2013

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555 South Flower Street
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Los Angeles, California 90071
United States

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nortonrosefulbright.com

Citigroup Global Markets Inc.
Los Angeles, California

Re: \$43,270,000 Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds, Series 2013G

Ladies and Gentlemen:

We have acted as counsel to you, Citigroup Global Markets Inc., as the Underwriter named in the Purchase Contract dated July 31, 2013 (the "Purchase Contract"), between the Underwriter and the Modesto Irrigation District Financing Authority (the "Authority") in connection with the issuance and sale of the \$43,270,000 principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds").

The Bonds are being issued pursuant to Chapter 5 of Title 1 of Division 7 of the Government Code of the State of California, and a Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), by and among the Authority, the Modesto Irrigation District (the "District"), and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The Bonds are being issued for the purpose of providing funds to (i) refinance a portion of the costs of the Domestic Water Project of the District by refunding all of the Authority's outstanding Domestic Water Project Refunding Revenue Bonds, Series 1998D; (ii) purchase an insurance policy for the funding of a reserve fund for the Bonds; and (iii) pay costs of issuance of the Bonds.

Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Contract, or if not defined therein, in the Trust Agreement.

We have reviewed, among other documents, the Purchase Contract, the Official Statement dated July 31, 2013 with respect to the Bonds (the "Official Statement"), the Trust Agreement, the Installment Purchase Contract, originally dated as of November 1, 1992, and as amended and restated through August 1, 2013 (the "Installment Purchase Contract"), by and between the Authority and the District, the Amended and Restated Treatment and Delivery Agreement entered into in 2005, and as further amended (the "Treatment and Delivery Agreement"), by and between the District and the City of Modesto, California (the "City"), the Continuing Disclosure Agreement, dated the date hereof (the "Continuing Disclosure Agreement"), by and between the City and the Trustee, as dissemination agent, certificates of the Authority, the District, the City, the Trustee, and others, the opinions referred to in the Purchase Contract and such other

records, opinions and documents, and we have made such investigations of law, as we have deemed appropriate as a basis for the conclusions hereinafter expressed.

In arriving at the conclusions hereinafter expressed, we are not expressing any opinion or view on, and with your permission are assuming and relying on, the validity, accuracy and sufficiency of the records, documents, certificates and opinions referenced above (including the accuracy of all factual matters represented and legal conclusions contained therein), including (without limitation) representations and legal conclusions regarding the due authorization, execution, delivery, validity, and enforceability of the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement, the Continuing Disclosure Agreement and the Bonds, the due authorization of the Official Statement, and the exclusion from the gross income of the owners thereof for federal income tax purposes of interest on the Bonds. We have assumed that all records, documents, certificates, and opinions that we have reviewed, and the signatures thereto, are genuine.

We understand that with respect to the matters covered by the approving opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), dated the date hereof, you have received a letter from Bond Counsel allowing you to rely on such opinion.

This opinion is limited to matters governed by the federal securities law of the United States, and we assume no responsibility with respect to the applicability or effect of the laws of any other jurisdiction.

Based on and subject to the foregoing, and in reliance thereon, we are of the opinion that the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

Assuming the due authorization, execution and delivery of the Continuing Disclosure Agreement by the parties thereto and the enforceability thereof, the Continuing Disclosure Agreement satisfies section (b)(5)(i) of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended.

In our capacity as counsel to the Underwriter, we have rendered certain legal advice and assistance to you in connection with the preparation of the Official Statement. Rendering such legal advice and assistance involved, among other things, discussions and inquiries concerning various legal matters, review of certain records, documents and proceedings, and participation in meetings and telephonic conferences with, among others, your representatives and representatives of the Authority, the District, the City, counsel to the Authority, the District and the City, First Southwest Company as financial advisor to the District, Public Financial Management, Inc. as financial advisor to the City, and Bond Counsel, at which meetings and during which telephonic conferences the contents of the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Official Statement), no facts have come to the attention of the personnel in our firm directly involved in rendering legal advice and assistance to the Underwriter in connection with the preparation of the Official Statement which cause us to believe that the Official Statement as of its date or as of the date hereof (excluding therefrom financial, demographic and statistical data;

forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to DTC, Cede & Co. and the operation of the book-entry system; statements relating to Assured, the Bond Insurance Policy and the Reserve Policy; statements relating to the treatment of the Bonds or the interest, discount or premium, if any, thereon or therefrom for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption "TAX MATTERS" and in the Appendices to the Official Statement; as to all of which we express no view) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

During the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of any of the statements contained in the Official Statement.

We are furnishing this letter to you solely for your benefit as Underwriter. This letter may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or filed with any governmental or other administrative agency or other person or entity for any purpose without our prior written consent. This letter is not intended to, and may not, be relied upon by the owners of the Bonds. Our engagement with respect to this matter terminates upon the delivery of this letter to you at the time of the closing relating to the Bonds, and we have no obligation to update this letter.

Respectfully submitted,

Fulbright & Jaworski LLP



Law Department
Wells Fargo & Company
MAC N9305-172
Sixth and Marquette
Minneapolis, MN 55479

wellsfargo.com

August 14, 2013

To the Parties Listed on the Attached Schedule A

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds,
Series 2013G
(the "Bonds")

Ladies and Gentlemen:

I am Senior Counsel for Wells Fargo & Company, the parent corporation of Wells Fargo Bank, National Association, a national banking association ("Wells Fargo"). As such, I have reviewed, or have had reviewed on my behalf, the provisions of (i) the Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), by and among Modesto Irrigation District Financing Authority (the "Authority"), Modesto Irrigation District (the "District") and Wells Fargo, as trustee (the "Trustee") and (ii) the Continuing Disclosure Agreement, dated August 14, 2013 (the "Continuing Disclosure Agreement," and together with the Trust Agreement, the "Agreements"), by and between the City of Modesto (the "City") and Wells Fargo, as dissemination agent (the "Dissemination Agent").

I am generally familiar with the Articles of Association and the Bylaws of Wells Fargo and am also generally familiar with the corporate proceedings of Wells Fargo with regard to its authorization, execution and delivery of the Agreements. Capitalized terms used herein shall have the respective meanings ascribed to them in the Agreements, except as otherwise defined herein.

For purposes of this opinion, I have assumed the genuineness of all signatures (other than those of Wells Fargo), the authenticity of all documents submitted to me as originals, and the conformity with originals of all documents submitted to me as copies. In making my examination of documents executed by entities other than Wells Fargo, I have assumed that each such other entity had the power to enter into and perform all its obligations thereunder, and also have assumed the due authorization of all requisite action and due execution of such documents by each such entity. Where questions of fact material to my opinions expressed below were not established independently, I have relied upon statements of officers of Wells Fargo as contained in their certificates.

Based upon the foregoing, I am of the opinion that:



1. Wells Fargo is a national banking association and is validly existing and duly qualified to do business and in good standing under the laws of each jurisdiction in which the performance of its duties under the Agreements would require such qualification and has the requisite power and authority to execute, deliver and perform its obligations under the Agreements.

2. Wells Fargo is duly eligible and qualified to act as Trustee under the Trust Agreement and as Dissemination Agent under the Continuing Disclosure Agreement.

3. Wells Fargo has all requisite power, authority and legal right to execute and deliver the Agreements and to perform its obligations under the Agreements, and has taken all necessary corporate action to authorize the execution and delivery of and the performance of its obligations under the Agreements.

4. Wells Fargo has duly executed and delivered the Agreements. Assuming the due authorization, execution and delivery thereof by the other parties thereto, the Agreements are the legal, valid and binding agreements of Wells Fargo enforceable in accordance with their terms, except to the extent enforceability thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights and remedies heretofore or hereafter enacted, and (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases.

5. The Bonds have been duly authenticated and delivered by Wells Fargo.

6. The execution, delivery and performance of the Agreements by Wells Fargo and the consummation of the transactions contemplated thereby do not and will not (a) to my knowledge, conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which Wells Fargo is a party or by which Wells Fargo is bound or to which any of the property or assets of Wells Fargo or any of its subsidiaries is subject, (b) result in any violation of the provisions of the charter, Articles of Association, By-laws, or applicable resolutions of Wells Fargo, or (c) to my knowledge, result in any violation of any statute or any order, rule or regulation of any court or government agency or body having jurisdiction over Wells Fargo or any of its properties or assets.

7. To my knowledge, there are no actions, proceedings or investigations pending or threatened against Wells Fargo before any court, administrative agency or tribunal (i) asserting the invalidity of the Agreements, (ii) seeking to prevent the consummation of any of the transactions contemplated thereby or (iii) that might materially and adversely affect the performance by Wells Fargo of its obligations under,

August 14, 2013

Page 3

or the validity or enforceability of the Agreements. For purposes of the foregoing, I have not regarded any actions, proceedings or investigations "threatened" unless the potential litigants or governmental authority has manifested to a member of the Wells Fargo & Company Law Department having responsibility for litigation matters involving the corporate trust activities of Wells Fargo a present intention to initiate such proceedings.

All approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the performance by Wells Fargo of any of its duties and obligations under the Agreements (insofar as it is the obligation to obtain any such approval, consent or order) have been obtained and are in full force and effect.

I advise you that I am admitted to practice in the State of California (the "State"), and do not purport to be qualified to express legal opinions based on the laws of any jurisdiction other than the federal laws of the United States of America ("Federal") and the State. These opinions are further limited to such State and Federal laws in effect as of the date hereof.

The foregoing opinions are being furnished to you solely for your benefit and that of your counsel and may not be relied upon by, nor may copies be delivered to, any other person without my prior written consent.

Very truly yours,



Laurie K. Jones
Senior Counsel
Wells Fargo & Company

hk1jf281

Schedule A

Modesto Irrigation District Financing Authority

Modesto Irrigation District

The City of Modesto

First Southwest Company

Citigroup Global Markets Inc.

Wells Fargo Bank, National Association

Fitch Ratings, Inc.

Standard & Poor's Ratings Services

Assured Guaranty Municipal Corp.

August 14, 2013

Municipal Bond Insurance Policy No. 215749-N
and
Municipal Bond Debt Service Reserve Insurance Policy No. 215749-R
With Respect to
\$21,575,000 In Aggregate Principal Amount of
Modesto Irrigation District Financing Authority, California
Domestic Water Project Refunding Revenue Bonds, Series 2013G maturing on September 1 of the years 2019 through 2022,
inclusive

Ladies and Gentlemen:

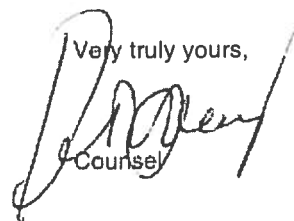
I am Counsel of Assured Guaranty Municipal Corp., a New York stock insurance company ("AGM"). You have requested my opinion in such capacity as to the matters set forth below in connection with the issuance by AGM of its above-referenced policy no. 215749-N (the "Insurance Policy") and its municipal bond debt service reserve insurance policy no. 215749-R (the "Reserve Policy" and, together with the Insurance Policy, the "Policy"). In that regard, and for purposes of this opinion, I have examined such corporate records, documents and proceedings as I have deemed necessary and appropriate.

Based upon the foregoing, I am of the opinion that:

1. AGM is a stock insurance company duly organized and validly existing under the laws of the State of New York and authorized to transact financial guaranty insurance business therein.
2. The Policy has been duly authorized, executed and delivered by AGM.
3. The Policy constitutes the valid and binding obligation of AGM, enforceable in accordance with its terms, subject, as to the enforcement of remedies, to bankruptcy, insolvency, reorganization, rehabilitation, moratorium and other similar laws affecting the enforceability of creditors' rights generally applicable in the event of the bankruptcy or insolvency of AGM and to the application of general principles of equity.

In addition, please be advised that I have reviewed the description of the Policy under the caption "BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS – Bond Insurance Policy" in the official statement relating to the above-referenced Bonds dated July 31, 2013 (the "Official Statement"). There has not come to my attention any information which would cause me to believe that the description of the Policy referred to above, as of the date of the Official Statement or as of the date of this opinion, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Please be advised that I express no opinion with respect to any information contained in, or omitted from, the caption "BOND INSURANCE FOR THE INSURED SERIES 2013 WATER BONDS – Assured Guaranty Municipal Corp.".

I am a member of the Bar of the State of New York, and do not express any opinion as to any law other than the laws of the State of New York.

Very truly yours,

Counsel

Modesto Irrigation District Financing Authority,
1231 Eleventh Street,
Modesto, California 95354.

Citigroup,
as Representative of the Underwriters,
444 South Flower Street, 27th Floor,
Los Angeles, California 90071

Assured Guaranty Municipal Corp.



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August 14, 2013

Citigroup Global Markets Inc.
Los Angeles, California

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds, Series 2013G
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you, as Underwriter pursuant to Section 4(f)(6) of the Purchase Contract dated July 31, 2013 (the "Purchase Contract"), between you and the Modesto Irrigation District Financing Authority (the "Authority") providing for the purchase of \$43,270,000 principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds"). The Bonds are being issued pursuant to a Trust Agreement, dated as of August 1, 2013 (the "Trust Agreement"), among Wells Fargo Bank, National Association, as trustee, the Modesto Irrigation District (the "District") and the Authority. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement or, if not defined in the Trust Agreement, in the Purchase Contract.

We have delivered our final legal opinion (the "Bond Opinion") as bond counsel to the Authority concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the Authority. You may rely on such opinion as though the same were addressed to you.

In connection with our role as bond counsel to the Authority, we have reviewed the Purchase Contract, the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement, the Tax Certificate, opinions of counsel to the Authority, the District and the Trustee, certificates of the Authority, the District, the City of Modesto, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to provide the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions or conclusions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person,



Citigroup Global Markets Inc.
August 14, 2013
Page 2

whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the Installment Purchase Contract, the Treatment and Delivery Agreement, the Tax Certificate and the Purchase Contract and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers authorities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinions with respect to the state or quality of title to or interest in any real or personal property described in or as subject to the lien of the Trust Agreement or the Installment Purchase Contract or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, except as expressly set forth in numbered paragraph 3 below, completeness or fairness of the Official Statement dated July 31, 2013 (the "Official Statement") or other offering material relating to the Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended. No opinion is expressed with respect to the Bond Insurance Policy and the Reserve Policy.
2. The Official Statement and the execution and delivery thereof have been duly approved by the Authority.
3. The Purchase Contract has been duly executed and delivered by, and is a valid and binding agreement of, the Authority.



Citigroup Global Markets Inc.
August 14, 2013
Page 3

4. The statements contained in the Official Statement under the captions “THE SERIES 2013 WATER BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 WATER BONDS (excluding information under the headings “The Treatment and Delivery Agreement - Additional Encumbrances of City Gross Water Revenues”),” “TAX MATTERS,” APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” and APPENDIX D - “PROPOSED FORM OF OPINION OF BOND COUNSEL,” excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Trust Agreement, the Treatment and Delivery Agreement and the Installment Purchase Contract and the form and content of our Bond Opinion, are accurate in all material respects.

This letter is furnished by us as bond counsel to the Authority. No attorney client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this letter. We disclaim any obligation to update this letter. This letter is delivered to you as Underwriter of the Bonds, is solely for your benefit as such Underwriter and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

A handwritten signature in blue ink that reads "Orrick, Herrington & Sutcliffe LLP".

ORRICK, HERRINGTON & SUTCLIFFE LLP



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August 14, 2013

Modesto Irrigation District Financing Authority
Modesto, California

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds, Series 2013G
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Modesto Irrigation District Financing Authority (the "Issuer") in connection with the issuance of \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the "Bonds"), issued pursuant to a trust agreement, dated as of August 1, 2013 (the "Trust Agreement"), by and among the Issuer, the Modesto Irrigation District (the "District") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Installment Purchase Contract, the Tax Certificate, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Issuer, the District and the Trustee, certificates of the Issuer, the District, the Trustee, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed,



without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Installment Purchase Contract and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the Installment Purchase Contract and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Installment Purchase Contract or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer. The Bonds are payable from certain amounts payable by the District under the Installment Purchase Contract and certain other moneys described in the Trust Agreement (as more particularly defined in the Trust Agreement, the "Revenues").

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The Installment Purchase Contract has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer and the District, respectively.



4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

A handwritten signature in blue ink, appearing to read "J.M. Wang", written over a horizontal line.



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August 14, 2013

Assured Guaranty Municipal Corp.
New York, New York

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds, Series 2013G

Ladies and Gentlemen:

In connection with the delivery of the above-referenced bonds (the "Bonds") we have delivered our final legal opinion concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the issuer of the Bonds.

You may rely on said opinion as though the same were addressed to you; provided, however, that we give no opinion with respect to the tax status of amounts, if any, that may be paid to you (by subrogation or otherwise) with respect to interest paid by you to the bondholders. No attorney client relationship has existed or exists between the addressee of this letter and our firm in connection with the Bonds or by virtue of this letter.

Very truly yours,

Orrick, Herrington & Sutcliffe LLP

ORRICK, HERRINGTON & SUTCLIFFE LLP



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August 14, 2013

Wells Fargo Bank, National Association
San Francisco, California

Modesto Irrigation District Financing Authority
Domestic Water Project Refunding Revenue Bonds, Series 2013G

Ladies and Gentlemen:

In connection with the delivery of the above-referenced bonds (the "Bonds") we have delivered our final legal opinion concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the issuer of the Bonds.

You may rely on said opinion as though the same were addressed to you, as trustee, but solely for the benefit of, and as if you were one of, the holders of the Bonds. No attorney client relationship has existed or exists between the addressee of this letter and our firm in connection with the Bonds or by virtue of this letter.

Very truly yours,

A handwritten signature in blue ink that reads "Orrick, Herrington & Sutcliffe LLP" with a stylized flourish at the end.

ORRICK, HERRINGTON & SUTCLIFFE LLP

Modesto Irrigation District Financing Authority

Domestic Water Project Refunding Revenue Bonds, Series 2013G Closing Memorandum

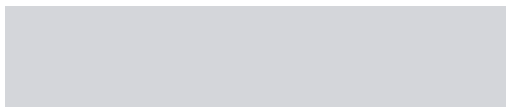


Prepared by

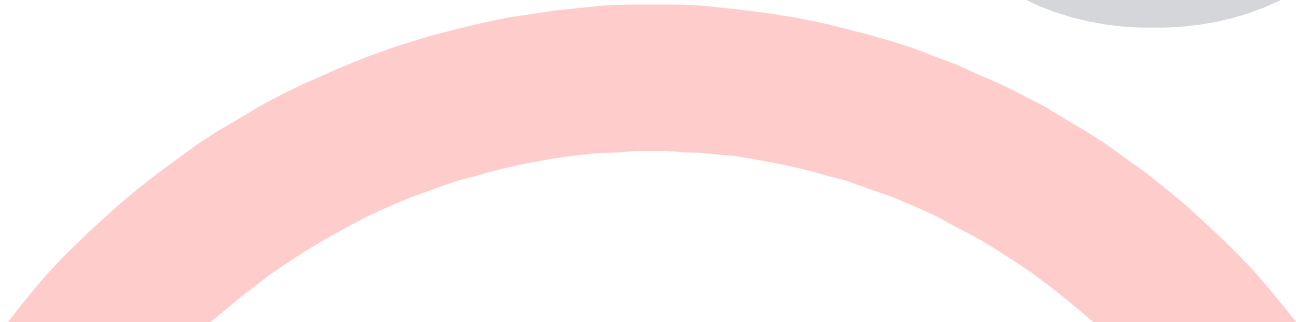


CITIGROUP GLOBAL MARKETS INC.

444 South Flower Street, 27th Floor
Los Angeles, CA 90071



August 14, 2013



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CLOSING

On August 14, 2013 the closing for the Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”) will take place via conference call.

Date: August 14, 2013
Time: 8:00 am (PDT)
Dial-in: (646) 490-2858
Conference Code: 591-635-9163

PURCHASE PRICE AND FUNDS AVAILABLE AT DELIVERY

Bond Related Sources of Funds:	
Par Amount:	\$ 43,270,000.00
Original Issue Premium:	5,707,261.95
Less Underwriter’s Discount:	(153,929.09)
Purchase Price:	\$48,823,332.86
Less Bond Insurance Premium:	(35,738.63)
Less Surety Policy Premium:	(119,494.00)
Total:	\$ 48,668,100.23
Other Available Funds:	
Bond Fund Contribution:	5,468,571.88
Total Sources of Funds:	\$ 54,136,672.11
Uses of Funds:	
Defeasance of 1998D Bonds:	53,791,401.20
Cost of Issuance ⁽¹⁾ :	345,270.91
Total Uses of Funds:	\$ 54,136,672.11

⁽¹⁾ Cost of issuance includes \$270.91 of additional proceeds

WIRE INSTRUCTIONS FOR CLOSING

DAY BEFORE CLOSING (8/13). Wire Transfer of Bond Fund Contribution: On August 13, 2013, the Modesto Irrigation District Financing Authority (the “Authority”) will wire to Wells Fargo Corporate Trust, as the trustee for the Bonds and the Refunded Bonds (the “Trustee”), **\$5,468,571.88**, which represents the Bond Fund Contribution from the Authority, to be applied toward the redemption of the Refunded Bonds.

DAY OF CLOSING (8/14). Wire Transfer of Bond Proceeds: On August 14, 2013, Citigroup Global Markets Inc. (“Citi”) will wire via Federal Funds to the Trustee **\$48,668,100.23**, which represents the Purchase Price less the Bond Insurance Premium and the Surety Policy Premium. Mary Jo Murphy (212) 723-7095, will act as Citi’s contact for wiring these funds.

Wire Instructions:

Purchase Price Wire Instructions	
Wire Amount:	\$48,668,100.23
Wire to:	Wells Fargo Bank N.A.
ABA:	121000248
A/C:	0001038377
BNF:	Corporate Trust Clearing
A/C:	MIDFA DWPRRB 13G
ATTN:	Grace Yang 213-614-3320

DAY OF CLOSING (8/14). Wire Transfer of Bond Insurance Premium and Surety Policy Premium: On August 14, 2013, Citi will wire via Federal Funds to Assured Guaranty, **\$155,232.63**, which represents the Bond Insurance Premium and Surety Policy Premium. Mary Jo Murphy (212) 723-7095, will act as Citi’s contact for wiring these funds.

Insurance / Surety Wire Instructions	
Wire Amount:	\$155,232.63
Wire to:	The Bank of New York
Account Name:	Assured Guaranty Municipal Corp.
Account Number:	8900297263
ABA:	021-000-018
Bond Insurance Policy Number:	215749-N
Surety Policy Number:	215749-R

DAY OF CLOSING (8/14). Deposits and Transfers: Upon receipt of the wire representing the Purchase Price from Citi and the Bond Fund Contribution from the Authority, the Trustee will make the following redemptions and deposits:

- (1) \$53,791,401.20 is to be applied by the Trustee on the date of closing to redeem in full the Refunded Bonds at a redemption price equal to the principal amount thereof, together with accrued interest thereon to the redemption date; and
- (2) \$345,270.91 is to be deposited in the Series 2013G Project Fund.

SUMMARY OF BONDS REFUNDED

<u>Bond Type</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Par Amount</u>	<u>Redemption Date</u>	<u>Call Price</u>
Serial Bonds	09/01/2013	5.125%	\$4,175,000	08/14/2013	100
Serial Bonds	09/01/2014	5.125%	4,395,000	08/14/2013	100
Serial Bonds	09/01/2015	5.125%	4,615,000	08/14/2013	100
Serial Bonds	09/01/2016	5.000%	4,855,000	08/14/2013	100
Serial Bonds	09/01/2017	5.000%	5,095,000	08/14/2013	100
Serial Bonds	09/01/2018	5.000%	5,350,000	08/14/2013	100
Term Bonds	09/01/2022	4.750%	24,135,000	08/14/2013	100
Total			\$52,620,000		

COST OF ISSUANCE DETAILS

The \$345,270.91 deposited in the Series 2013G Project Fund (as described in paragraph (2) above) is to be applied, upon the direction of the Authority, to pay the costs of issuance relating to the 2013G Bonds outlined below:

<u>Cost of Issuance</u>	<u>\$ / 1000</u>	<u>Not to Exceed Amount</u>
Bond Counsel (MID)	2.31107	100,000.00
Bond Counsel (City)	0.92443	40,000.00
Trustee	0.09244	4,000.00
Financial Advisor (MID)	1.67553	72,500.00
Financial Advisor (City)	1.61775	70,000.00
Printing Fee	0.05778	2,500.00
Rating Agency (S&P)	0.57777	25,000.00
Rating Agency (Fitch)	0.64710	28,000.00
Contingency ⁽¹⁾	0.07559	3,270.91
Total Costs of Issuance	7.97945	345,270.91

⁽¹⁾ Cost of issuance includes \$270.91 of additional proceeds

FUNDS WILL NOT BE DISBURSED INTO ANY ACCOUNTS UNTIL THE BOND ISSUE IS CLOSED. BOND COUNSEL, THE TRUSTEE AND CITI ARE PARTIES TO THE CONVERSATION WITH DTC TO RELEASE THE BONDS AND ONLY AFTER THAT TIME, SHALL THE TRUSTEE DISBURSE THE FUNDS.

In connection with any proposed transaction, Citi will be acting solely as a principal and not as your agent, advisor, account manager or fiduciary. Citi has not assumed a fiduciary responsibility with respect to the proposed transaction, and nothing in this or in any prior relationship between you and Citi will be deemed to create an advisory, fiduciary or agency relationship between us in respect of a proposed transaction. You should consider carefully whether you would like to engage an independent advisor to represent or otherwise advise you in connection with any proposed transaction, if you have not already done so.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the existence of and proposed terms for any contemplated transaction.

The provision of information in this presentation is not based on your individual circumstances and should not be relied upon as an assessment of suitability for you of a particular product or transaction. Even if Citi possesses information as to your objectives in relation to any transaction, series of transactions or trading strategy, this will not be deemed sufficient for any assessment of suitability for you of any transaction, series of transactions or trading strategy.

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This presentation is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results. Any estimates and opinions included herein constitute Citi's judgment as of the date hereof and are subject to change without any notice.

This presentation may contain "forward-looking" information. Such information may include, but not be limited to, projections, forecasts or estimates of cash flows, yields or return, scenario analyses and proposed or expected portfolio composition. Any forward-looking information is based upon certain assumptions about future events or conditions and is intended only to illustrate hypothetical results under those assumptions (not all of which are specified herein or can be ascertained at this time). It does not represent actual termination or unwind prices that may be available to you. Actual events or conditions are unlikely to be consistent with, and may differ significantly from, those assumed. Illustrative performance results may be based on mathematical models that calculate those results by using inputs that are based on assumptions about a variety of future conditions and events and not all relevant events or conditions may have been considered in developing such assumptions. Accordingly, actual results may vary and the variations may be substantial. The products or securities identified in any of the illustrative calculations presented herein may therefore not perform as described and actual performance may differ, and may differ substantially, from those illustrated in this material. When evaluating any forward looking information you should understand the assumptions used and, together with your independent advisors, consider whether they are appropriate for your purposes.

Any securities or other financial products described herein may be subject to fluctuations of their mark-to market price or value. Such fluctuations may be substantial, depending on the type of securities or other financial products and the financial environment. In addition certain securities described in the presentation may provide for payments linked to or derived from prices or yields of one or more securities or other instruments or foreign currencies, and such provisions may result in negative fluctuations in the value of and the amounts payable with respect to such securities prior to or at redemption. You should consider the implication of such fluctuation with your independent accounting, tax and risk advisors.

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Citi is required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with Citi. Citi will ask for your complete name, street address, and taxpayer ID number. Citi may also request corporate formation documents, or other forms of identification, to verify information provided.

IRS Circular 230 Disclosure: Citi and its employees are not in the business of providing, and do not provide, tax or legal advice to any taxpayer outside of Citi. Any statements in this presentation regarding tax matters were not intended or written to be used, and cannot be used or relied upon, by any taxpayer for the purpose of avoiding tax penalties. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

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\$43,270,000
MODESTO IRRIGATION DISTRICT FINANCING AUTHORITY
DOMESTIC WATER PROJECT REFUNDING REVENUE BONDS
SERIES 2013G

CLOSING MEMORANDUM

The following memorandum will summarize the procedures to be followed in completing the sale of \$43,270,000 aggregate principal amount of Modesto Irrigation District Financing Authority Domestic Water Project Refunding Revenue Bonds, Series 2013G (the “Bonds”).

Place

Orrick, Herrington & Sutcliffe LLP
405 Howard Street
San Francisco, California 94105
Via online deal room “Firmex”

Time

Pre-closing - Tuesday, August 13, 2013 at 1:00 p.m. via Firmex

Closing - Wednesday, August 14, 2013 at 8:00 a.m. (via conference call)

Parties

Modesto Irrigation District Financing Authority (the “Authority”);

Modesto Irrigation District (the “District”);

City of Modesto (the “City”);

Wells Fargo Bank, National Association (the “Trustee”);

Citigroup Global Markets Inc. (the “Underwriter”);

First Southwest Company (the “Financial Advisor” or “FA”);

Assured Guaranty Municipal Corp. (the “Insurer”);

Laurie K. Jones, Esq. (“Trustee’s Counsel” or “TC”);

Fulbright & Jaworski LLP (“Underwriter’s Counsel” or “UC”);

City Attorney of City of Modesto and Sidley Austin LLP (“Counsel to the City”); and Orrick, Herrington & Sutcliffe LLP (“Bond Counsel” or “BC”).

The parties indicated below will deliver each of the respective documents indicated below in three (3) copies. The documents will be executed in advance of the Closing by the respective parties thereto. All of such deliveries will be deemed to have been made in escrow until the final delivery at the Closing has been made. All of the following documents shall be dated the date of the Closing, unless otherwise indicated.

Responsibility for preparing, assembling or delivering the documents is indicated in parentheticals.

DOCUMENTS

1. Joint Exercise of Powers Agreement, dated as of July 1, 1989, with evidence of filing with the California Secretary of State, certified by the Secretary of the Authority (BC).
2. Trust Agreement, dated as of August 1, 2013 by and among the Authority, the District and the Trustee (BC).
3. Installment Purchase Contract, dated as of August 1, 2013 by and between the District and the Authority (BC).
4. Amended and Restated Treatment and Delivery Agreement, executed and delivered during 2005 by the District and the City of Modesto, as amended by the Financing Amendments to Amended and Restated Treatment and Delivery Agreement, dated as of June 1, 2007, by and between the District and the City of Modesto, certified by the Secretary of the District (Agreement: District; certification: BC).
5. Continuing Disclosure Agreement between the City and the Trustee (UC).
6. Resolution No. 2013-01 of the Authority adopted on July 9, 2013, certified by the Secretary of the Board of Directors of the Authority (Resolution: Authority; certification: BC).
7. Resolution No. 2013-56 of the District, adopted on July 9, 2013, certified by the Secretary of the Board of Directors of the District (Resolution: District; certification: BC).
8. Resolution No. 2013-256 of the City, adopted on July 9, 2013, certified by the City Clerk (Resolution: City; certification: BC).
9. Purchase Contract, dated July 31, 2013, executed by the Underwriter and the Authority, together with Letter of Representations, executed by the City, Authority and Underwriter (UC).
10. Preliminary Official Statement, dated July 25, 2013 (UC).

11. Certificates of the Authority, District and City as to Finality of Preliminary Official Statement, each dated July 25, 2013 (UC).
12. Final Official Statement, dated July 31, 2013 (UC).
13. Tax Certificate, with attached Certificates of: (i) the Underwriter, (ii) the Insurer; (iii) the Financial Advisor; and (iv) the City (BC).
14. Written Order and Request of the Authority (BC).
15. Certificate of the Authority (BC).
16. Certificate of the District (BC).
17. Requisition No. 1 of the District regarding the Project Fund (BC).
18. Certificate of the City (City).
19. Certificate of the Trustee with general signature resolution of the Trustee attached (Certificate: BC; Resolution: Trustee).
20. Municipal Bond Insurance Policy (Insurer).
21. Municipal Bond Debt Service Reserve Insurance Policy (Insurer).
22. Certificate of the Insurer (Insurer).
23. Rating Letters (insured and underlying) from Fitch Ratings and Standard and Poor's Ratings Group (Insurer and UW).
24. Blanket Letter of Representations of the Authority to The Depository Trust Company (Bond Counsel).
25. Preliminary and Final California Debt Investment and Advisory Commission Reports (BC).
26. Internal Revenue Service Form 8038-G (BC).
27. Blue Sky Memorandum, dated July 25, 2013 (UC).
28. Copy of audited financial statements of Water System of the City (City).
29. Receipt of the Trustee (BC).
30. Receipt for the Bonds (BC).
31. Specimen Bonds (BC).

Opinions

32. Opinions of Counsel to the City (City).
33. Opinion of Counsel of the District as counsel to the Authority (District).
34. Opinion of Counsel to the District (District).
35. Opinion of the Underwriter's Counsel (UC).
36. Opinion of Counsel to the Trustee (TC).
37. Opinion of Counsel to the Insurer (Insurer).
38. Supplemental Opinion of Bond Counsel (BC).
39. Final Opinion of Bond Counsel (BC).
40. Reliance letters of Bond Counsel addressed to the Insurer and the Trustee.

Closing

After the Closing, the parties, as appropriate, will receive transcripts of the proceedings, subsequent to the following events:

- A. The Underwriter shall wire transfer to the Trustee the aggregate amount of \$48,668,100.23 (comprised of \$43,270,000 principal amount, plus original issue premium of \$5,707,261.95, less the underwriter's discount in the amount of \$153,929.09, less the premium payment for the Municipal Bond Insurance Policy of \$35,738.63 and less the premium payment for the Municipal Bond Debt Service Reserve Insurance Policy of \$119,494.00).
- B. The Underwriter shall wire transfer to the Insurer the amount of \$155,232.63, representing the Municipal Bond Insurance premium for the Bonds in the amount of \$35,738.63 and the premium for the Municipal Bond Debt Service Reserve Insurance Policy in the amount of \$119,494.00.
- C. The Insurer will release the Municipal Bond Insurance Policy and the Municipal Bond Debt Service Reserve Insurance Policy for the Bonds to the Trustee.
- D. The Trustee will release to the Underwriter the Bonds in the aggregate principal amount of \$43,270,000.

- E. The Trustee will apply the amount received from the sale of the Bonds in accordance with the Written Order and Request of the Authority.
- F. The Trustee will invest funds in accordance with the Written Order and Request of the Authority.